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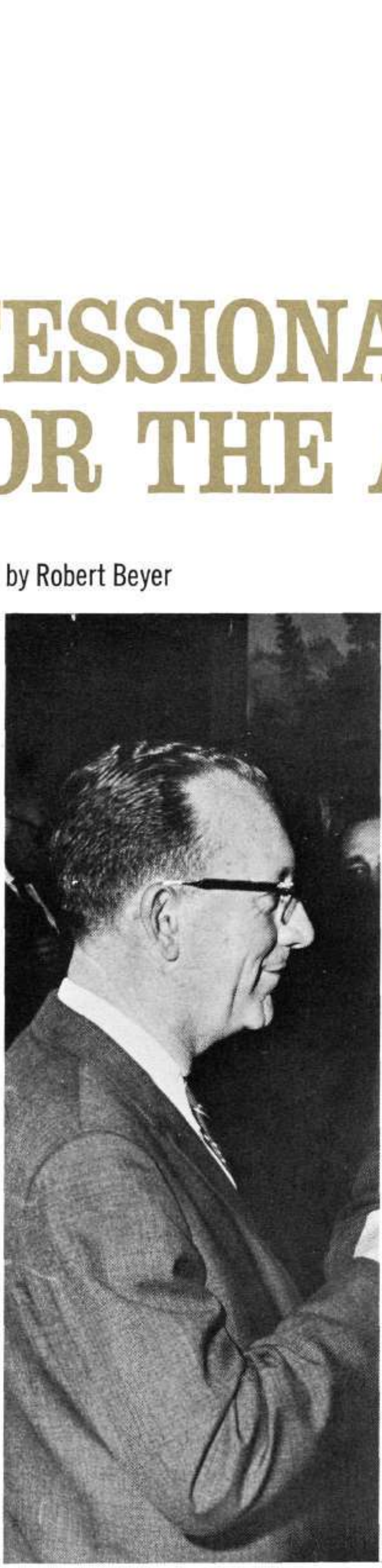
Firm policies and procedures on technical matters are stated in our technical manuals, bulletins and letters. The opinions expressed herein on technical subjects represent those of the authors and are not to be construed as setting forth new or amending present firm policies and procedures.

PROFESSIONAL EDUCATION FOR THE ACCOUNTANT:

by Robert Beyer

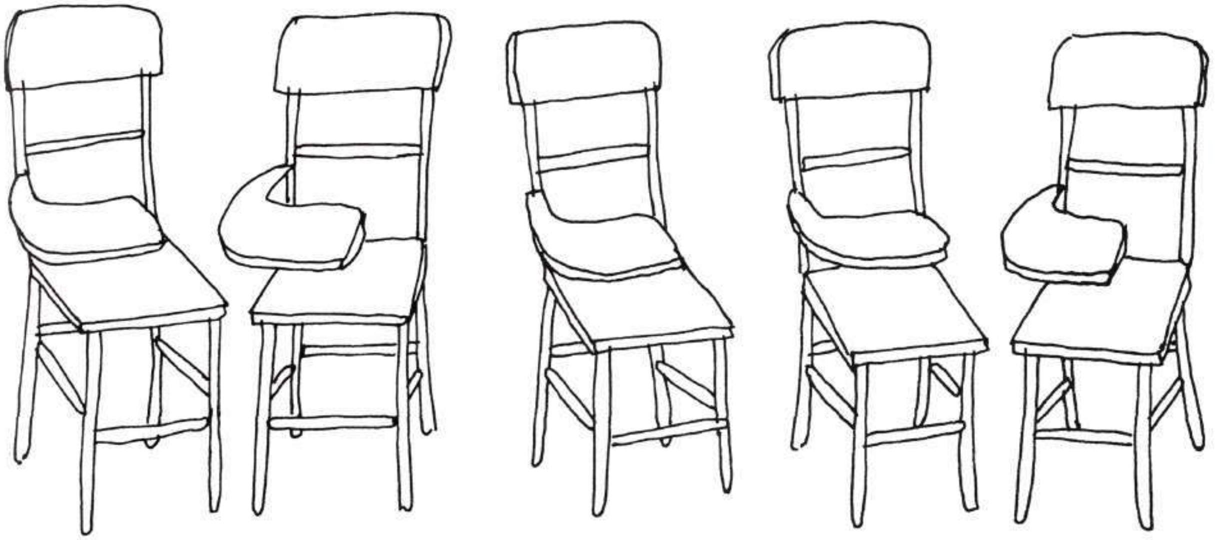


BEGINNING this month, Touche, Ross, Bailey & Smart opens wide the door to a new era of educational opportunities for all its staff members. The firm's Executive Committee, Policy Group, and those responsible for training take pride in announcing this educational program which represents a major investment in the firm's growth and prosperity. Such a project expands the firm's existing facilities for training and forms part of the $18,000,000,000* U. S. industry spends for training each year.

A detailed outline of the new program is included in another section of *The Quarterly*. You might page over it quickly right now to see what I mean when I say I am struck by the range of the courses and by their variety. Personally, I am eager to learn about new techniques, new concepts, new discoveries which our expert instructors have ready for us. It delights me to imagine how this expansion of competence can improve our tax, audit, and management services. And I have no doubt that, as word of the program spreads to the universities, it will help attract capable young people to our firm.

Even after twenty-eight years in the accounting pro-

Robert Beyer's most recent book is "Profitability Accounting for Planning and Control," published by Ronald Press. Articles by our managing partner have also appeared recently in "The Journal of Accountancy," "Banking Magazine" and "Administrative Management."



WHOSE RESPONSIBILITY?

fession—practicing, teaching, writing, and making innovations—I am sure there is still a lot I can discover both from the instruction sessions (I intend to visit many of them) and from the feedback of students.

All of us at TRB&S are in a sense both students and teachers. We can teach others something about our specialties and we can learn a lot from others about their special areas of knowledge. It is all part of the process of educating the whole man, your education and my education. It should prove an exciting experience for all of us. We may discover new talents, new capabilities we did not know we had. Through the challenge of new ideas, the perception of fresh relationships with other areas of knowledge, we may very well experience thrilling releases of energy. It will renew our dedication to our professional careers.

**Business Week,* June 20, 1964, pp. 56

What is Professional Education?

At the start of such an ambitious and far-ranging project it seems appropriate to examine the basic idea of a professional education and where the responsibility for it lies. Let us begin by defining terms. What is education? Education is an ideal and humanizing process. In it an individual learns theory and skills, makes them his own through practice and refinement, and leads himself to function as a whole man in relation to the world in which he lives.

When education has its proper place and purpose in society, the open and intelligent mind welcomes it. An enlightened society realizes the process furnishes both soil and seed for its cultural vitality and survival. The development or stagnation of education has paralleled the rise and fall of human cultures throughout history. Before the rise of the universities, during the waning of the middle ages, only a few men were educated and these, for the most part, by self-perpetuating crafts, trades, or callings. As examples, consider the old guild system's master-apprenticeship relationship or the training of the clergy by the church. In England and Scotland, where modern accounting took particularly long strides toward becoming the profession it is today, "articled clerks" still apprentice themselves in accounting offices. Through practical experience, on-the-job training, and home-study, they prepare for their "chartering."

In the United States, where universal public education is the typically American contribution to the history of education, the accountant usually takes his early training at a university. The university either has a school of business or offers a Bachelor of Arts degree for which the student can major in economics, business administration, or accounting. If his undergraduate degree was in economics or liberal arts, the student would then specialize in accounting or business administration for his Master's degree.

Professional education, as distinct from a general or liberal arts education, leads the student directly into one of the professions such as medicine, law, engineering, the ministry, architecture, teaching, or accounting. Each of these fields of specialized knowledge, by general consent, fulfills the requirements of a profession or group whose members:

1. possess a body of specialized knowledge
2. undergo a recognized, formal process of education
3. conform to a standard of professional qualifications governing admission. (In the case of accounting it is the CPA exam.)
4. maintain certain standards of conduct
5. perform work of benefit to the public
6. have a recognized status
7. belong to an organization devoted to the advancement of the social obligations of the profession.

Professional education characteristically requires a broad base of formal training usually in a university or college, then post-graduate work, and, finally, facilities for continuing education throughout one's career. When a young man crosses the threshold of the CPA exam, in his career as an accountant, he enters into a life-long process of education.

The Responsibility of the University for Professional Education

Accounting, as a profession, moves faster and faster toward the day when it can provide effective services in *all* areas of measurement and communication of economic data. As concepts race ahead in such related areas of knowledge as the behavioral sciences, mathematics, and techniques of data processing, the challenge to educate the apprentice accountant increases daily. We have reached the point where the potential CPA cannot obtain sufficient education in a four-year undergraduate course at a university to carry him through his professional career. There is a reason for this. In many business schools the preparation for the CPA examination has dictated the pattern of instruction. By tradition this tests a narrow range of knowledge: accounting theory, accounting problems, auditing, and commercial law. It is necessary now to broaden and deepen the course material offered in order to whet the appetite of students for continued study on their own.

Business today demands effective measurement and communication of economic data in greater quantity and quality than yesterday's accounting information can supply. And, mark my words, business tomorrow will ask for even more and better data.

Yet the knowledge of the newest technical wrinkles in accounting will not alone make an accountant a professional. The future demands of the profession will force the young accountant to move into ever-widening experience with all phases of social and economic life.

This educational gap has been increased by the different qualities and ranges of instruction at different universities and business schools. Although universities have the responsibility for the formal education of an accountant, some have not yet reached the frontiers of knowledge pioneered by the leaders in the accounting profession while others have succeeded in keeping pace.

To help close the gap, the profession must make clear to the universities what areas of knowledge it wants covered by aspiring accountants.

Many steps have already been taken toward cooperation with the universities in this task. In its publication, "The Accounting Profession—Where Is It Headed?" the American Institute of Certified Public Accountants suggests that the responsibility of the university is "to design a curriculum to stimulate intellectual curiosity, develop the ability to think logically and grasp fundamental principles that can be applied to a variety of specific situations, cultivate the ability to communicate clearly, and inculcate a general understanding of human nature and the social environment."

Course experimentation in the universities still must go on. Everyone knows of the successful programs at the well known graduate schools of business in this country. Significant innovations are also being sponsored by many other institutions. As the awareness of the need for more and broader education spreads, almost all schools of business have been, or are, reshaping their curricula. Committees of the American Accounting Association suggested and sponsored many of these changes. I can say without qualification that today the universities graduate a man who is much better prepared for accounting than his colleagues were a decade ago.

More and more universities have designed and initiated a graduate program for professional training in business administration and accounting and have reserved the undergraduate years for emphasis on the liberal arts including such subjects as literature, philosophy, economics, the behavioral sciences, the physical sciences, and mathematics. Other universities have greatly increased their emphasis on the liberal arts courses while providing core courses in business administration which, although a terminal degree for many students, also provides an excellent foundation for graduate study. TRB&S endorses this trend wholeheartedly. Whenever feasible, the firm employs young people with graduate degrees. It is too early yet to expect every school of business to climb aboard this bandwagon. There are good reasons for the delay: the shortage of qualified instructors; the increased cost to the school and to the student; and the time required to build facilities and develop curricula. Nonetheless, a trend has been started and our firm intends to keep it moving.

When a prospective staff man asks me if he should attend graduate school, I tell him, "If you can afford it, by all means, do so." Now, let me say right here that a graduate degree does not guarantee success in accounting. Think of the accountants you know. Many outstanding men did not have the opportunity to go to graduate school because they could not afford it, because military service intervened, or because of other valid reasons. Some of these men took on a long program of part-work, part-study to get a higher degree. Some learned the relatively slow and expensive way: by experience on the job. Often the achievements of these men have been made *because they recognized the need for further education* and were willing to work extra hard for it.

Yet the current demands of the profession are such that graduate study provides the quickest, most convenient, and probably the least expensive way to build a solid foundation for a career in accounting.

The Reponsibility of the Firm

Professional education, as I said earlier, is a life-long process. Thus only part of it can take place in the university. Once the university has built a substantial base, the continuing responsibility passes to the profession, usually a man's firm, and, of course, to the man, himself.

Even the most highly motivated individuals, however, despite brave beginnings, seldom complete a long-term, systematic program of self-improvement. Daily professional work, family responsibilities, and community projects divert the drive for regular hours of independent study. Another factor also argues for continuation courses sponsored by the firm. You know as well as I that many subjects, particularly technical subjects, prove difficult to master by self-study. These skills and theories can be learned much more quickly and thoroughly when taught by experts.

TRB&S, with the launching of its new courses, rededicates itself to a comprehensive, hard-hitting program of continuing professional education. It is our aim to make these courses of outstanding value to members of the firm and, taken as a whole, an educational program second to none in the profession.

This project, as you know, is not a sudden development. Ever since 1947 when the present firm was organized, TRB&S has offered training opportunities to its staff. Probably the best known of these was the Group I Training School for new recruits. These early programs stressed vocational requirements and filled a need of that time. Our growth today demands much more. Business constantly grows more complex. Clients ask for more services from their accountants. The educational challenge is clear. In 1959 the AICPA embarked on long-range planning for a full-fledged professional training program. Part of this study acknowledged that the basis of training for the profession had been too narrow.

I would like to stress that this stretching of viewpoint did not develop overnight. In our firm it follows naturally from previous training and, I am sure, will lead to other plans. As we took this step forward we kept in mind the advice of the mathematician and philosopher, Alfred North Whitehead, who said, "The art of progress is to preserve order amid change and to preserve change amid order."

General Objectives of the New Program

As part of the careful planning for these courses, W. Thomas Porter, our Director of Education, has worked with the various technical committees of the firm. They have kept these objectives in mind:

1. Improve the competence of our staff members in all technical areas so that they may provide better service to our clients.
2. Assist each person to realize his maximum potential.
3. Create new ideas for practice development.
4. Present the firm's philosophy, policies, and procedures in technical as well as administrative areas.
5. Disseminate developments not only in accounting, but in other phases of business as well.

So that our people can reach these objectives, three types of training have been planned. They are National Conferences, Local Office Programs, and On-the-Job Training. For each, certain goals have been set and each should add characteristic flavor to the whole process of education.

Central Training Center Program

Our new national conferences will provide staff members with basic instruction in all three functional areas—audit, tax, and management services. Advanced instruction will be given to each staff member in the functional area in which he is going to specialize. Following these courses, specialized instruction will be available for staff people who devote significant amounts of their time to a particular industry or to a new service of the firm. These national conferences replace regional programs formerly conducted by the firm. The quality of instruction of the national conferences should prove higher because fewer instructors will be needed. The recently completed Audit-EDP seminars offer an excellent example of the superior instruction we will have with national conferences. (G. M. Boni, Dennis Mulvihill, W. Thomas Porter, and Henry Rossi, who comprise the firm's Audit-EDP committee, handled the instruction for these seminars with the fine assistance of Elliott Green of IBM.) Similar committees have been appointed to select instructors, to challenge and refine the outlines of course material, to prepare all course material, and to evaluate, periodically, the sessions and their feed-back.

Also, national conferences make it easier to achieve maximum attendance. Instructors can schedule multiple sessions for most of the training. This provides flexibility; offices can fit in education with client engagements, vacations, and illnesses. Attending national conferences offers staff members a prime opportunity for meeting partners and colleagues from offices throughout the country. Conferees will be able to discuss common problems and discover new ideas based on a rich variety of shared experiences.

Most of the new national conferences will take place in New York City. The scope and content of the programs in each of the functional areas—audit, tax, and management services—can be classified either as *basic training* or *specialized training.*

Basic training is designed as a first level of professional education to meet the growth and service objectives of the firm. The instruction will be aimed at all functional areas to give an awareness of the firm's total professional services. Regardless of his functional area, a man will receive training in one or both of the other two areas. This follows the firm's policy of requiring significant experience in two of the three areas of service for promotion to supervisor. The description of courses elsewhere in this issue of *The Quarterly* outlines basic staff training.

Specialized training is designed for staff members, usually at the management level, who require advanced training in order to render specialized professional services. The instruction includes necessary skills for servicing manufacturers, retailers, financial institutions, and government agencies. It will also include such topics of particular importance to the firm's growth and reputation as Profitability Accounting and Audit-EDP.

In addition to this Central Training Center Program in New York City, there are other national conferences which include *The National Auditing Conference* (or Group I Audit) held each year at the Kellogg Center for Continuing Education on the campus of Michigan State University. All staff members recently graduated from a university attend this two-week program. Its primary purpose is to outline for new staff men the firm's organization and philosophy and to present instruction in auditing objectives, standards, and procedures.

The Management Conference is a ten-day program for recently promoted audit, tax, and management service managers. Conferees discuss such topics as managing an accounting practice, managing an engagement, quality control problems of an accounting firm, practice development, and professional responsibilities.

Local Office Educational Programs

Our national conferences represent but one phase of the firm's training. Local office programs are necessary also. Instruction offered by local offices provides concentrated, tailor-made sessions on topics and problems of particular value to the office involved. Such training should strengthen specific weaknesses in an office or build its competence to serve the new or particular needs of local clients. This type of instruction complements and extends the training received from national conferences. Each office is expected to conduct a program of at least forty hours of training a year scheduled on a weekly or monthly basis. All staff members are expected to attend. Topics for discussion will include specific technical subjects of importance to the office, effective communication, current problems in tax, audit, and management services, current firm and AICPA announcements, and practice development procedures.

On-the-Job Training

Training on the job can provide a man with a realistic critique and evaluation of the very procedures and techniques he is using in a specific engagement. Such give and take on the job improves the working relationship of supervisors and assistants and, in so doing, can generate the most valuable training possible. *Each engagement budget, for this reason, includes an allowance for on-the-job training.* It is up to those in charge of engagements to spend sufficient efforts to reach the goals of this program. *The national and local office programs were planned with the assumption that effective on-the-job training will be conducted.* Without it, the national and local programs cannot serve their intended purpose. A TRB&S newsletter in August of this year outlined the objectives of on-the-job training. I urge you to re-read that statement now.

The Training Program as a Spur to the Firm's Growth

The investment of TRB&S in this comprehensive educational program is sizeable and is intended as a "capital improvement" to spur the firm's growth. The "capital" of any professional firm lies in the brain power of its members, their knowledge, their skills, their open-mindedness, and their curiosity. The firm therefore feels the new program represents a major modernization project. Heightened efficiency in fulfilling services should more than justify the expense.

The kick-off of the program, set for September in New York, should also trigger the flow of results. Maximum results will require maximum support from instructors. This means thorough preparation of lectures and discussion material and enthusiastic presentation of the subject. Also required are attendance at every session, active participation by each conferee and conscientious completion of all assignments. The student's commitment to learning can be compared to service given on a client engagement. Each must be planned so that no part is neglected.

The Responsibility of the Individual

In reality, the individual has a major responsibility for his professional education from the very start. Self-interest suggests he learn what his university and his firm require as quickly and as thoroughly as time and circumstances allow. The man who is really determined to become a leader in his profession will learn more than mere requirements in all stages of his career.

Ideally, and hopefully, the whole of one's training in the university and in the firm is accompanied by self-development. This is not something done to or for someone although the individual benefits from the process. Rather it is a stimulus, a challenge to accept personal responsibility for keeping open the door to further enlightenment. In staff members this will show up as enthusiastic support of the new educational program, active participation in it, and rigorous goals for independent self-development. This attitude should also produce constructive criticism of the courses as they progress.

The CPA Exam and After

In outlining a goal for self-development, the first objective after graduation from a university and indoctrination in the firm's procedures is your certification as CPA. This certificate forms a foundation for your future growth. You have gained admission to the accounting profession. Having reached this milestone, you ready yourself for the challenges thrown at you by change. You must master new techniques, overcome specific deficiencies in your previous training, and remain up to date in your areas of special competence.

As you move further along in your professional career, you will want to acquire skills for servicing specific industries. To a knowledge of audit, tax, or management problems of an industry, you will want to seek understanding of the client's entire business—how it operates and its objectives for the future.

One of the best and most pleasant ways to master new subjects or to test innovations is to discuss them with other members of your profession. At TRB&S you have occasions to do this during the scheduled conferences of the firm. You will also have opportunities to speak to various business and professional groups. Take advantage of them. They offer you a chance to review and to sharpen your thinking on various subjects and they also lead you to possible new business. Ample opportunities also exist, beginning with this Quarterly, to publish your talks and to write original articles for appropriate journals.

The Challenge of Self-Renewal

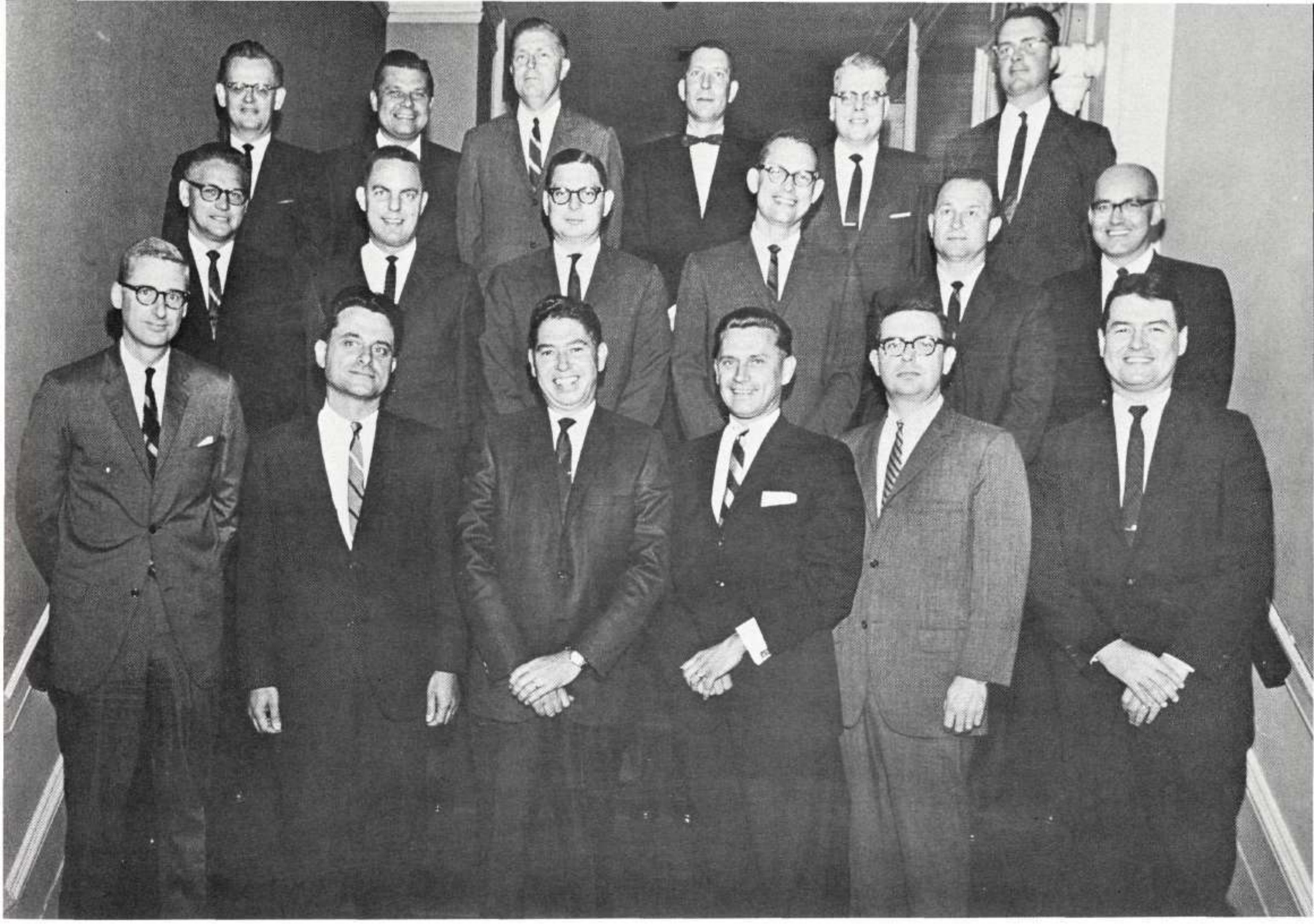
Education provides the means for self-development. Self-development leads to self-renewal. The infinite potential and responsibility of self-renewal have been identified by John Gardner, Chairman of the Carnegie Foundation, in his recent book, "Self-Renewal":

> "Exploration of the full range of his own potentialities is not something that the self-renewing man leaves to the chances of life. It is something he pursues systematically, or at least avidly, to the end of his days. He looks forward to an endless and unpredictable dialogue between his potentialities and the claims of life—not only the claims he encounters but the claims he invents. . . . This will not be a widely shared pursuit until we get over our odd conviction that education is what goes on in school buildings and nowhere else . . . The world is an incomparable classroom and life is a memorable teacher for those who aren't afraid of her."

The firm expects *you* to set up your own program of self-renewal. It may include a reading plan, active participation in professional and civic organizations, speeches, and articles. Although the firm as a whole benefits from your self-renewal and from the new ideas it may generate, it is you, the individual, who will reap the richest rewards; it is you alone who will contribute to the advancement of your profession.

May I repeat that the new training program was *designed for your benefit.* If you discover ways to make it better, do not hesitate to speak out.

Our New Partners



Eighteen new partners signed the Partnership Agreement when they met with the Policy Group on August 13th and 14th. Shown at the meeting in New York are, left to right (bottom row), Henry Bodman, Detroit; Eli Gerver, San Francisco; James Crosser, Los Angeles; Ralph Marsh, Milwaukee; Robert Stevens, New York; Dennis Mulvihill, New York, (admitted as Principal); (middle row) Richard Shuma, San Jose; Robert Benjamin, Seattle; Donald Curtis, Detroit; Thomas Drenten, Los Angeles; Robert Wishart, Detroit; Nile Farnsworth, Detroit; (top row) Donald Wood, Detroit; Aloysius Mlot, Detroit; John Hegarty, Detroit; H. Justin Davidson, Chicago; Victor Brown, New York; John Keydel, Detroit.

NINETY-FOUR PEOPLE PROMOTED

MANAGERS

Sanford S. Ackerman, New York
Carl A. Alexander, Executive office
Robert D. Bolinder, San Francisco
Bradford Bradsher, St. Louis
Frank Brcak, Cleveland
Robert L. Burton, New York
Dane W. Charles, Dayton
George P. Craighead, Detroit
Denis M. Crane, Washington
Donald A. Custer, Dayton
Carroll E. Ebert, Chicago
Virgil R. Elkington, Portland
William H. Frewert, Chicago
Charles R. Frye, New York
Harold L. Fuller, Los Angeles
Robert P. Gibbons, New York
Vern E. Hakola, Los Angeles
Donald I. Hausman, Chicago
Thomas A. Hays, New York
Alan D. Henderson, Pittsburgh
William R. James, Detroit
Daniel J. Kelly, Detroit
Maurice L. McGill, Kansas City
Earl E. Marcus, Denver
Roger C. Markhus, Philadelphia
William J. Morris, Dallas
J. David Moxley, San Francisco
Thomas J. Nieman, St. Louis
Gerald W. Padwe, New York
Russell E. Palmer, Denver
Phyllis E. Peters, Detroit
Gerald A. Polansky, Washington
Anthony E. Rapp, New York
Don F. Stark, Memphis
Max F. Sporer, New York
John L. Vernon, Executive office
Richard T. Walsh, Detroit
Alvin E. Wanthal, San Francisco

SUPERVISORS AND SENIOR CONSULTANTS

Thomas R. Ames, Detroit
Edward A. Bauman, Detroit
Robert L. Bean, San Francisco
Thomas P. Bintinger, Chicago
Frederick L. Blank, New York
William A. Bonfield, Milwaukee
Alex Borra, Los Angeles
Stanley M. Bray, Seattle
Lloyd W. Brown, Milwaukee
John F. Clearman, Seattle
Irwin T. David, Chicago
Lee C. DeDecker, Milwaukee
John H. DeJong, Detroit
Joseph F. DiMario, Pittsburgh
William DeTroye, Milwaukee
Ronald S. Fiedelman, Denver
William G. Gaede, Seattle
Jerald D. Grande, Minneapolis
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Julius L. Helvey, San Francisco
Werner O. Hintzen, Los Angeles
Donald B. Horan, Chicago
Richard L. Hornsby, St. Louis
Charles E. Husted, Denver
Luiz Leite, Executive office
Philip E. Leone, Chicago
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James K. Loebbecke, San Francisco
Richard C. Lyon, Detroit
Robert B. Miller, Kansas City
David J. Nagao, Executive office
Howard R. Neff, Phoenix
James W. Neithercut, Detroit
Gerald Niemeyer, San Francisco
Donald P. O'Connor, New York
Howard L. Olsen, San Francisco
Arthur B. Ottenstein, New York
Richard A. Patterson, Detroit
Anton S. Petran, Chicago
Richard M. Pollard, Houston
Arthur J. Radin, New York
Morwin T. Rockowitz, Dayton
John C. W. Schaie, Detroit
Francis J. Schubert, Dayton
David Smith, Detroit
Robert J. Smith, Detroit
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James O. Teeter, Chicago
Ward G. Tracy, Detroit
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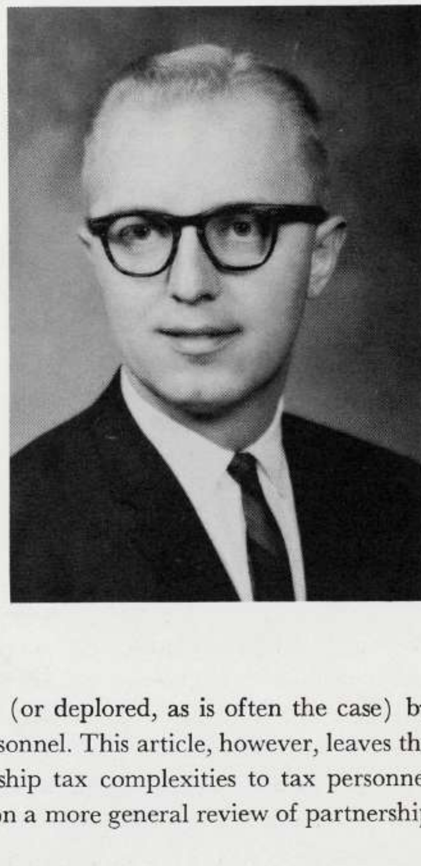
George B. Vest, Atlanta
Edward Weinthaler, San Francisco
Theodore E. Wentz, San Francisco
Jerry E. Whitehorn, Memphis
Robert J. Young, Houston

A brief look at Tax Considerations of Partnerships

by David J. Vander Broek



DAVID J. VANDER BROEK, supervisor in our Detroit office, joined TRB&S in 1957 after graduating from Michigan State University with a B.A. degree.

Mr. Vander Broek is active in the Michigan Association of Certified Public Accountants and is presently serving on its Committee on Federal Taxation. He is a member of the American Institute of Certified Public Accountants, Beta Alpha Psi, and Beta Gamma Sigma.

A native of Michigan, he is married and the father of four children.

This article is not intended to thoroughly explore all considerations for the partnership form of operations or the full implication of federal taxation of partnerships. Rather, its purpose is to provide general knowledge of partnership taxation and to highlight certain partnership tax problems and planning areas.

The partnership form of business operation is one of the dominant forms of business organization existing in our country today. Laws governing these operations vary among the states, although the general tendency at present is toward the adoption of the Uniform Partnership Act.

Federal taxation of partnership income is based upon passing annual partnership profits or losses through to the individual partners for inclusion in their respective individual income tax returns. Although this generality is true, specific partnership transactions can present a variety of complex income tax problems which should be carefully explored (or deplored, as is often the case) by competent tax personnel. This article, however, leaves the details of partnership tax complexities to tax personnel and concentrates on a more general review of partnership tax considerations.

Choice of Taxable Operation

When two or more persons join their capital, property, or services to carry on a business for profit, they first must decide which business entity to use for their operations. The nontax aspects of this decision, such as capital requirements, nature, size, and duration of the business, may automatically formulate this decision for them. Often, however, the federal income tax consequences in the small-to-medium size business operations are equally important factors for owners to consider in arriving at their choice of business entity.

In addition to normal partnership arrangements, syndicates, groups, pools, joint ventures, and other forms of dual ownership, unincorporated organizations will normally be taxed as partnerships. Accordingly, the choice of taxation on the results of multiowned business operations is generally limited to partnership or corporate taxation.

All items of tax significance with respect to a partnership's operations are determined and reported to the government as an accounting entity. However, as the partnership is not a *taxable* entity, it annually allocates its operational results among its partners in agreed proportions for inclusion in their tax returns for the year in which, or with which, the taxable year of the partnership ends. Current normal partnership distributions of cash to the partners of these annual operating results generally bear no incident of taxation.

Corporations, however, are both an accounting and a taxable entity. Accordingly, for a corporate stockholder to receive distributions of income from the results of corporate operations, such income must generally first be taxed at the corporate level and again at the time it is distributed to the stockholder as a dividend.

In comparing the total tax costs of these two forms of operation, realistic estimates of anticipated income, growth, risk, duration, and tax brackets of individual owners must first be determined. With this information, it is then possible to arithmetically calculate and compare the tax costs to the owners of each form of business enterprise.

Additional items for consideration in making a choice of business entity would include the possibility of (1) bypassing double taxation through annual *reasonable* salary payments to active corporate stockholder employees; (2) the after tax potential to stockholder-employees of various deferred compensation plans (pension, profit-sharing, insurance, etc.) available to partners only through the Self-Employed Individuals Tax Retirement Act; (3) corporate penalty surtaxes upon personal holding companies and improper accumulations of surplus; and (4) treatment of capital gains and losses, additional first-year depreciation, and other items which pass annually for taxation to partners but which are retained at the corporate level for taxation.

Existing business entities should also be reviewed when a combination of events has materially altered the original factors considered in establishing the form of enterprise. One such event could be the passage of the Revenue Act of 1964 with its reduction of individual and corporate tax rates, provisions for income averaging, and personal holding company changes. The need for constant review in this area for business enterprises which do not have obvious reasons for their existing form of business operations seems apparent.

This section would be incomplete without briefly pointing out, for federal income tax purposes, the existence of elections which permit certain small business corporations to bypass taxation on the corporate level by directly allocating to stockholders the annual income or loss of the corporation. Conversely, certain unincorporated business enterprises can elect to be taxed as corporations, rather than having their operating results taxed to the individual owners or partners.

Incidences of enterprises enjoying these optional federal income tax elections are not numerous as these elections are conditioned upon many events. However, they do present interesting possibilities for tax savings under the proper circumstances. One such possibility could be a partnership organization to initially pass through to partners losses during early periods of operations, followed by an election to be taxed as a corporation in later periods of substantial profits or increased capital retention needs of the business.

In summary, it must be remembered that the owners' enthusiasm for their enterprise, including the glamour of incorporation, may quickly fade if their choice of taxing entity has not been formulated with the proper evaluation of available information. Presumably, as much can be said for the thoughts of their professional advisors.

Starting the Partnership

Having determined that their business enterprise will be operated as a partnership, the partners should then agree upon each partner's distributive share of all partnership items which will annually be allocated to them. For many legitimate business reasons, certain items of partnership income, deductions, or credits should be divided among the partners in one manner, while other items should receive different allocations. Or, to state it differently, allocable partnership items should be evenly distributed between *all* partners only when each has contributed equal amounts of cash and services to the operation.

It is important to incorporate these special distributive share arrangements into the partnership agreement; without such provision all items would be shared by the partners in relation to their general share of partnership taxable income or loss.

The need for such special allocation agreements between partners can best be illustrated by contributed property. A partner generally realizes no gain or loss on his contribution of property to a partnership in exchange for his interest in the partnership. The partnership's tax basis for the contributed property is the same as that for the property in the hands of the contributing partner.

Assume A and B form a partnership with equal 50% interests in partnership capital and profits. A contributes \$10,000 in cash while B contributes property with a fair market value of \$10,000, but with a basis of \$5,000 to B. Assume further that the property is sold by the partnership for \$10,000 cash. At such time, the partnership has realized a taxable gain of \$5,000 (difference between sales price of \$10,000 and B's \$5,000 basis for the property at the time contributed to the partnership). Although A's economic interest in all partnership assets is still represented by his original \$10,000 contribution, he will currently be taxed on his \$2,500 share of partnership profit on the transaction, unless the full profit is taxed to B by specific provisions of the partnership agreement.

Although the partnership agreement can simply be an oral understanding evidenced by the conduct of the partners and the recording of partnership transactions, it is evident that a written agreement is preferable. A properly written legal agreement not only documents all special partnership allocations but, among other things, generally provides for all type partnership transfers of interest and the termination of the partnership. The partnership agreement may be modified (orally or in writing) with respect to a taxable year at any time prior to and including the date prescribed by law (excluding extensions of time) for the filing of the partnership return.

A new partnership must also make elections which affect its accounting computations. These would include elections as to methods of accounting and as to depreciation, bad debt, and intangible drilling policies.

A partnership may elect the accrual method of accounting even though all its partners are on a cash basis. However, in general, it must adopt the same taxable year as that of all its principal partners (those with 5% or more interest in partnership profits or capital) or a calendar year if all its principal partners are not on the same taxable year.

Annual Operating Results

As previously mentioned, partnerships do not pay income taxes. They must, however, file income tax returns setting forth the results of their operations for the year and the allocation of these results among the various partners. In arriving at net ordinary income (or loss) which will be allocated among the partners, all special items of income, deductions, and credits must *first* be segregated and allocated separately. This separation is necessary because of the host of limitations and special computations relating to capital gains and losses, dividends, contributions, foreign taxes and other credits. Since the special partnership items passed on to the partners maintain their same characteristics in the hands of the partners, the partners must be informed by the partnership of their shares of these special items as well as their shares of ordinary income or loss.

In arriving at allocable ordinary income or loss, the partnership must also eliminate nontaxable items (tax-free interest, political contributions, nonbusiness expenses) and guaranteed payments. The latter is most often simply annual guaranteed amounts due certain partners for their services or capital utilized by the partnership regardless of the firm's profit or loss for the year. Accordingly, its payment is taxable to the applicable partners and deductible by the partnership as if made to third parties.

Although it is clear that the amount (as opposed to character) of special items subject to limitations or special computations which a partner reports on his return is determined at his own level, the quantity of partnership mechanics needed to compute these special items varies. This is illustrated by examing the partnership mechanics relating to the additional 20% first-year depreciation allowance and the investment credit limitation on purchases of used property.

The additional first-year depreciation allowance on purchases of qualified personal property must be elected by the partnership. The amount of such allowance must be determined separately for each partner and may equal a maximum of 20% of such property *allocable* to each partner. The portion allocable to each partner is further limited to \$10,000 or \$20,000, depending upon his marital status and whether he files a separate or joint tax return. Accordingly, the partnership must schedule the qualifying property, compute the allocable interest of each partner in such property, apply the maximum limitation applicable to each partner, and then calculate each partner's dollar amount. This last information is passed on to the individual partners for inclusion in their returns.

In contrast, the credit against taxable income for investment in *used* tangible personal property by a partnership is computed upon a maximum of \$50,000 of annual purchases of such property by the partnership. The partnership simply selects the applicable \$50,000 or less of used property, determines each partner's share of such property, and passes the information along to the partners.

Basis of Partnership Interests

A partner's basis in partnership capital and profits is generally a capital asset and should be carefully maintained and documented for future needs, as required for any capital asset. As will be noted below, the adjusted basis of a partner's interest in the partnership at any particular time will not necessarily be determined by reference to the partnership records which reflect his capital or equity account for book purposes.

When entering a partnership, the partner's basis is normally represented by his cash contributions and the basis to him of other property contributed. The fair market value at the time of contribution of property (other than cash) does not affect his basis even though recorded at the fair market value on the books of the partnership. Should a partner initially contribute nothing to the partnership but services to be rendered in the future, his basis is zero until the end of the year in which such services are rendered.

In general, this initial basis is increased by the partner's share of partnership taxable and nontaxable income and any additional property contributions by him. It is decreased by his share of partnership losses (deductible and nondeductible) and by draws or distributions of property to him by the partnership. In no event, however, can his basis be reduced below zero.

A partner's basis for his partnership interest at a particular time must also be increased by his share of partnership liabilities since this is considered, for basis determination purposes, a contribution of cash to the partnership. Correspondingly, any decrease in a partner's share of partnership liabilities will be considered a distribution of cash to him by the partnership. This factor combined with partnership losses can present a planning area, as will be subsequently noted.

A partner is limited in deducting his share of annual partnership losses on his individual tax return to the extent of the adjusted basis of his partnership interest determined as of the end of such taxable year and excluding his loss for such year. Any such loss disallowed in one year because of a zero basis for his partnership interest can be carried over (without time limitation) and deducted on subsequent years' returns when the basis for his partnership interest has been sufficiently increased. Accordingly, a partner facing potential allocable partnership losses in excess of his partnership basis in any particular year could secure such losses for use in his personal return by increasing his basis in the partnership prior to year-end. This could be accomplished by his additional contributions of capital or by the partnership incurring additional liabilities which would be allocable to him. Conversely, a partner wishing to defer his reportable losses to the subsequent year could force the basis for his partnership interest down to zero prior to year-end by current partnership distributions of cash to him and thereby effectively carry over his share of reportable partnership losses to the subsequent year.

An alternative rule exists for determining a partner's basis for partnership interest when it is impracticable (or impossible) to apply the above-noted general rules. Simply stated, it allows determination of a partner's basis for his interest in a partnership by reference to his share of the adjusted basis of partnership property which would be distributed to him upon termination of the partnership. In practice, such basis would presumably be the partner's capital account on the books of the partnership. This rule applies only to situations where the partnership has been in existence for a number of years and the information needed to correctly determine a partner's basis is totally lacking or in a hopeless state of confusion. Unfortunately, this situation often exists.

Partner and Partnership Transactions

Ordinarily, transactions between a partner and the partnership, entered into by the partner in a capacity other than that of a partner, will be considered as between the partnership and a third party. Therefore, a partner can in good faith buy or sell property, make loans to, and render services to the partnership without incurring detrimental federal income tax effects. Exceptions to this rule (1) disallow *losses* on sale or exchange of property (other than a partnership interest) between a partnership and a partner whose interest (direct or indirect) in capital *or* profits is more than 50%; (2) disallow losses on sale or exchange of property between two partnerships where the same persons own more than 50% of the capital or profit interest of each partnership; (3) deny capital gain treatment on certain transfers between a partnership and partner owning more than an 80% interest in capital or profits, or between two partnerships in which the same persons own more than 80% of such interests; and (4) require inclusion in the return of a partner on the cash basis of his accrued partner's guaranteed payments in the same year within which, or with which, ends the partnership year in which the payments were accrued and deducted.

Distributions to partners and transfers of their interests in the partnership can be accomplished in many ways. Each method can produce different income tax results to the partners concerned. The following comments reflect only broad guidelines for these transactions and do not attempt to explore the inherent planning possibilities.

Nonliquidating Distributions

As mentioned previously, distributions of cash to a partner are ordinarily nontaxable events which simply reduce his partnership basis. However, if the cash distributions *exceed* his basis, such excess will normally be taxable to him as capital gain. Distributions of property other than cash do not result in gain to the distributee partner but simply reduce the basis for his partnership interest. The amount of this reduction of basis is equal to the partnership's adjusted basis for such property immediately prior to the distribution. It is also the basis of the property in the hands of the distributee partner. Should the basis of the distributed noncash partnership property *exceed* the basis of the distributee's interest in the partnership, special rules require the allocation of this lower basis to all the distributed property. Special attention must be given in such an allocation to unrealized receivables and certain inventory items which, upon ultimate disposal by the distributee partner, will result in the recognition to him of ordinary income.

The partnership recognizes no gain or loss on these distributions but may, in certain instances, elect to adjust the basis of its remaining property to offset the tax effect of the distribution on the distributee partner.

Liquidating Distributions

Similar rules apply to the complete liquidation of a partner's interest in a partnership. In addition, it is possible to have a loss on a complete liquidation if (1) the liquidating partner receives *only* money, unrealized receivables, and certain inventory items; and (2) the basis for his partnership interest being liquidated *exceeds* the money *and* the partnership's adjusted basis for the unrealized receivables and inventory distributed to him. Such excess basis is reportable as a capital loss by the partner in the year of liquidation.

Termination of Partnership Interest

When a partner's interest in a partnership is terminated by sale, withdrawal, or death, the economic effect is similar to that regarding complete liquidation noted above. The normal tax effects can be generalized as follows:

A. The terminated partner's share of actual partnership income or loss for the current year through the date of termination of his interest is taxable to him.

B. Payments for his interest in partnership capital assets result in capital gain or loss.

C. Payments for his interest in partnership unrealized receivables or certain inventory items generally result in ordinary income.

However, the tax effects of the termination of a partner's interest on a *sale* of his interest may differ in several ways from those resulting from receiving withdrawal payments from the partnership. Primarily, these differences relate to the year in which the terminated partner must include the payments for his partnership interest in his own return and the character (ordinary or capital gain) of the income to be reported.

The partnership (and thus the remaining partners) will also be affected by the form of the transaction. For instance, on a withdrawal, the partnership may receive a current deduction on account of payments to the withdrawing partner for unrealized receivables. On a sale, however, the partnership may merely be entitled to increase its basis for these unrealized receivables (with the proper election) and thereby receive only a future tax benefit for such payment.

Termination of Partnership

Neither provisions of local law nor provisions in partnership agreements for the addition of new partners or withdrawal of partners will terminate an existing partnership for federal income tax purposes. A termination will occur for tax purposes *only* (1) when the partnership ceases to conduct any portion of its business as a partnership or (2) when within any 12-month period there is a sale or exchange of 50% or more of the total interest in partnership capital *and* profits.

Professional Responsibilities to Partnerships

The average partnership does not usually compare in size with the average corporation. With smaller businesses, there is often a tendency to ignore professional assistance in the belief that it is either too costly or not necessary. Too often this belief persists as the business grows and prospers, regardless of an increasing need for professional assistance and the status of financial position. As originally stated, this article was not intended to develop "partnership tax experts." It was, however, intended to increase the reader's general familiarity with partnership tax problems which, hopefully, will ultimately benefit our clients.

GENERAL FOOTNOTE

Specific references for items included in this article are contained in Sections 701 - 771, Internal Revenue Code (1954) and the Treasury Department Regulations thereunder.

UNIVERSITY RELATIONSHIP PROGRAM

A number of professors work with the firm each year as part of our continuing university relationship program. Shown here are several of them who have been with the firm recently. Professor Louis Jordan of Columbia University was a member of our New York audit staff for eight months. Professor Peter Firmin of Tulane University spent the summer working in the management services department of our Chicago office. Professor Robert Walden of Indiana University assisted William Werntz and Hans Shield in the area of accounting research in the Executive office this summer.

Professor Jordan

Professor Firmin with Walter Soderdahl and Leslie Laidlaw, partners in Chicago.

Professor Walden (center) with Henry Korff, Director of Recruitment, and Hans Shield, Director-Research, Accounting and Auditing, in the Executive office.

by Maurice McGill

MEAT PACKING

An Industry on the Deck

The author wishes to express his appreciation to Iowa Beef Packers, Inc., for their cooperation in preparing this article.

"Gentlemen, this industry is on the deck. It has hit the bottom and has only one way to go — up." This statement was made recently to a group of financial analysts by A. D. Anderson, president of Iowa Beef Packers, Inc., as he discussed one of the largest, most important industries of the United States — meat packing. These comments, coming from the president of the newest member in the family of major meat packers, were greeted with some skepticism by many of the analysts. A careful review of the industry's history reveals a record of many cyclical changes, but with a distinctly downward trend. Anderson's comments were based on experience much deeper than the four-year history of his company. He was attempting to explain that the spectacular growth of Iowa Beef Packers, Inc., is directly related to a major evolutionary development in the meat-packing industry, the second major development in this century.

Major meat packing companies realized substantial profits and obtained a major portion of their growth in the early 1900's when, prior to the Consent Decree of 1920, they controlled not only the meat slaughtering and packing facilities, but also the major stockyards through which most livestock were marketed. Cattle have historically been raised in the western regions of the United States where they feed on the vast expanses of grassland until they are about six months old. Western cattlemen traditionally left cattle on the range during the spring and summer months and took them off the range during the fall. At that time, the breeding stock was selected, the herds were culled and all other cattle were transported to the Midwest.

This "fall run" would flood the stockyards with thousands of slaughter and feeder cattle. From this vast supply, farmers in the Midwestern states selected sufficient numbers of feeder cattle to consume their recently harvested grain crops and the remaining cattle were sent to slaughter. The movement of cattle from the Western to the Midwestern states was based on simple economics; it was cheaper to transport the cattle to feed supplies, primarily corn, than it was to transport feed to the cattle, particularly in view of the fact that in doing so, the cattle were moved closer to the larger Eastern population centers where they would ultimately be consumed. Inadequate refrigeration and transportation facilities made it imperative that meat slaughter plants be located close to the consumer. Consequently, Chicago, Boston, Philadelphia, New York and other Eastern cities became major meat packing centers.

In the early 1900's a small revolution took place in the industry. As refrigerated rail cars made long distance

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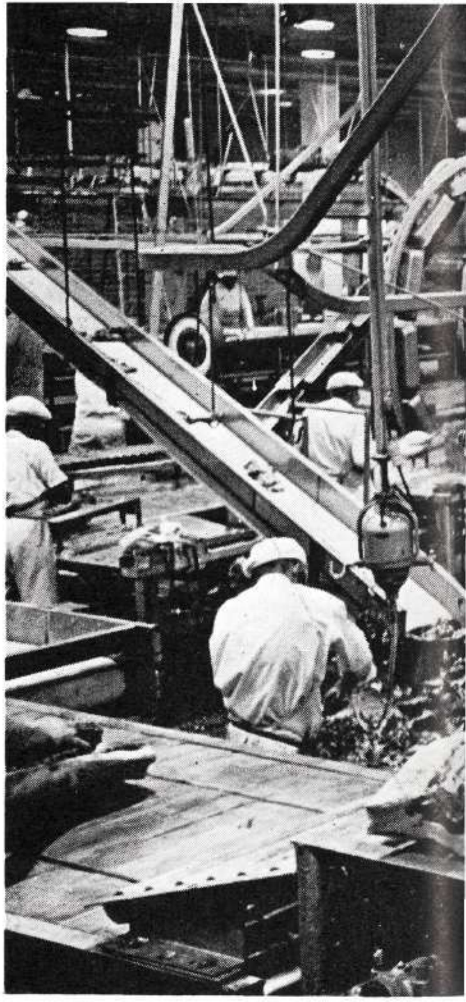
A native Missourian, he is married and the father of two girls.

Currier Holman, Chairman of the Board, discusses financial plans with author Maurice McGill.



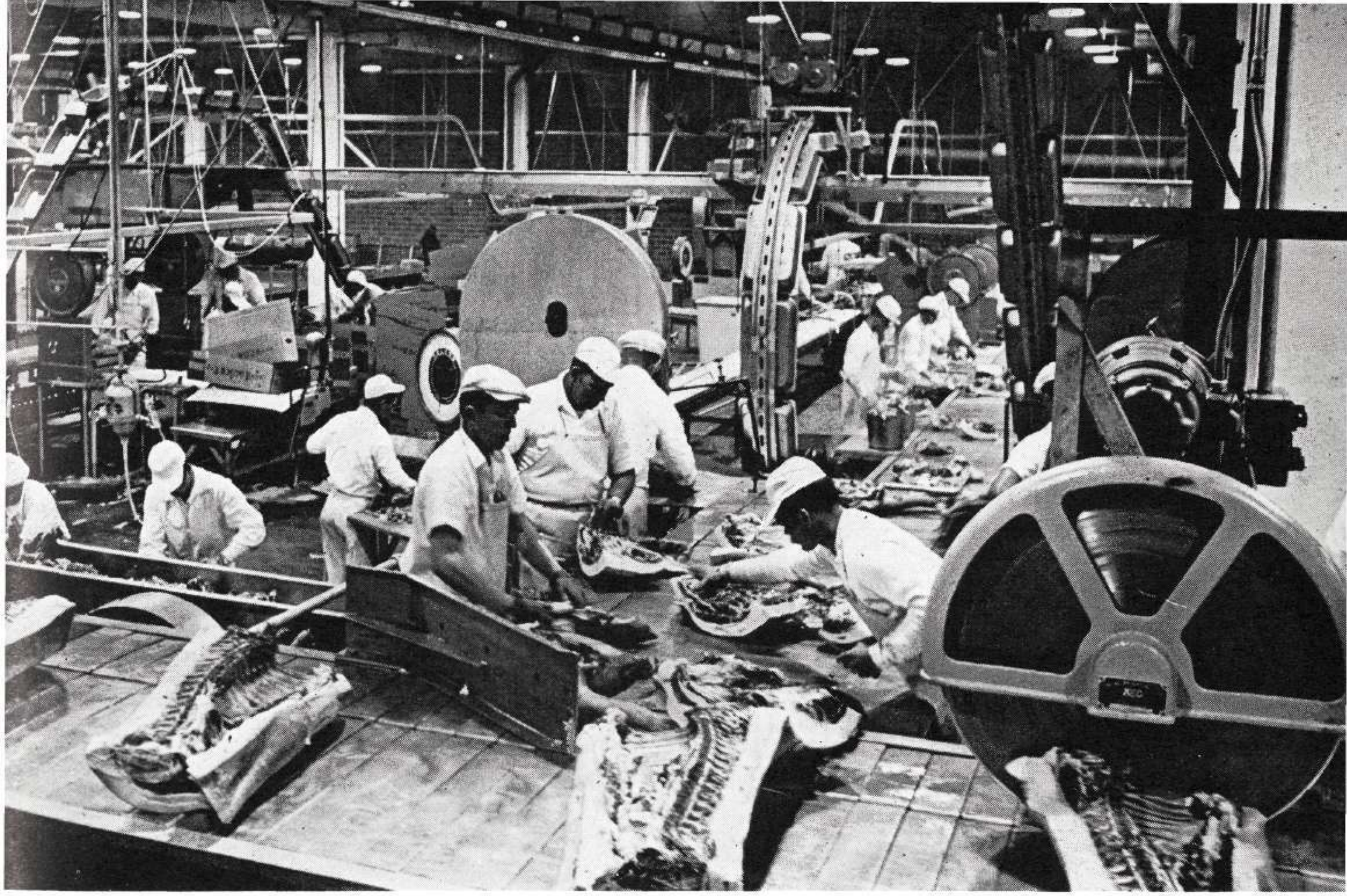
shipment of fresh slaughtered meat possible, the major meat packers (already plagued by obsolete Eastern plants) moved westward closer to available supplies of slaughtered cattle and hogs. The Western movement was basically predicated upon economics. It became cheaper to ship dressed carcasses of beef and pork than to ship live animals which often die and always lose weight in transit, and whose dressed weight after elimination of low value inedibles is substantially less than live weight. Live steers transported from Kansas City to New York were expected to lose from eight to ten percent of their weight, whereas a dressed carcass will shrink in weight by about one quarter of one percent. In addition, since dressed carcasses do not require feed and water every thirty-six hours as do live cattle, and a dressed carcass weighs only fifty to sixty percent of the live steer weight, freight costs were greatly reduced. Inedible by-products are primarily useful as ingredients for livestock and poultry feed; therefore, slaughtering cattle in the Midwest eliminated transportation on these products in both directions.

The Western movement ultimately led to a concentration of meat packing plants near the principal central livestock markets along the Missouri River at St. Paul, Sioux City, Omaha, and Kansas City, where farmers have traditionally marketed their cattle and hogs.

The significance of this Western movement is vividly dramatized by a drive through the now vacant and deserted Chicago stockyard which was once the largest, most concentrated stockyard and packing house area in the world. Stockyards and packing houses in certain other cities have long since been removed. The United Nations building in New York City is on the site of an old packing plant.

The industry continued to grow after the Western movement until today it is a huge industry that ranks in dollar sales just behind the automobile industry. The total number of cattle slaughtered by the meat packing industry has risen from 11½ million head in 1925 to 23½ million head in 1962. Numbers of other animals slaughtered have also risen proportionally. Consumers spend approximately 25% of their food dollar at the meat counter and the annual per capita consumption of all red meats has climbed 12.1% during the last five years to an estimated 169.9 pounds per person in 1963.

The increase in meat consumption slightly exceeds the general increase in the standard of living and the major increase in productive capacity of the agricultural industry. More refined farming techniques which have made



Pork plant processes over 30,000 head per week.

the Midwest farm belt the largest corn producing area in the world have also tended to decrease proportionately the cost of livestock feed. This effects a general decline in livestock cost and a corresponding increase in consumer demand for meat.

As the industry's output grew, so did the number and size of meat packing plants. Plants were constructed in the central terminal markets with adequate capacities to handle peak production during the traditional "fall run" of cattle and hogs. Storage facilities were adequate to store millions of pounds of cured and smoked pork for later sale when the pork supply declined. Major packers gradually increased the productive output of existing plants. Very few operational changes were made in the plants and the basic slaughter operation did not materially change for over a quarter of a century.

The last twenty years have seen a gradual change toward a more orderly livestock market. Modern farming facilities and technical knowledge have enabled the cattle feeder to prepare cattle for market at all times during the year so that he can avoid the extremely depressed prices that resulted from a large cattle run. The elimination of seasonal fluctuations has caused the meat packing industry to be plagued by narrow profit margins despite the growing demand for its products. Most of the industry's problems stem from the fact that it now has almost no control over its source of supply. Dealing with a perishable commodity makes it impossible to build inventories when livestock prices are low. Furthermore, the Consent Decree of 1920 limits the industry to wholesale operations, thus restricting it from influencing selling prices by integrating into retailing.

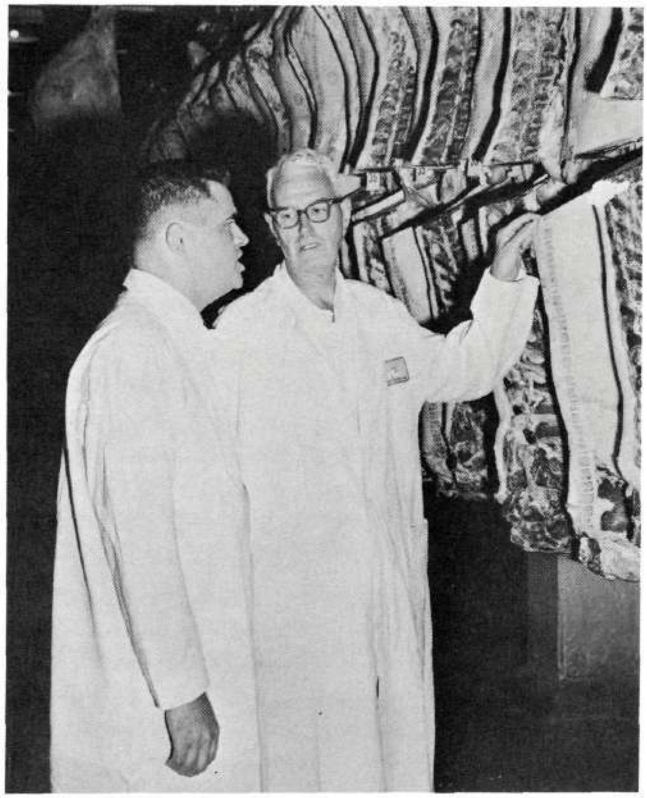
Wholesale meat prices move in relation to changes in both the supply and the demand side of the equation and a sharp price swing in either direction results in a severe squeeze on the industry's profit margin. During periods when slaughter supplies are short, prices are bid up as the packers attempt to acquire sufficient quantities of raw materials to utilize existing plant capacity. However, an abundance in the supply of slaughter animals generally precipitates a decline in dressed meat prices. Short-term fluctuations in retail demand also affect the packer's operations. Major packers have consequently been reluctant to expend major sums of money to expand or modernize facilities because of the extremely thin profit margin of the industry. In 1963, revenues of the five leading companies amounted to about six billion dollars; but profits were only forty-four million dollars after taxes, amounting to 0.7% of total sales. Even these earnings were bolstered by earnings from non-meat packing divisions of the companies, such as chemicals, fertilizer, soaps, and insurance.

The convictions of A. D. Anderson, Currier Holman (Chairman of the Board of Iowa Beef Packers, Inc.), and others that the meat packing industry can be made more profitable, led to the formation of Iowa Beef Packers, Inc. New, modern, packing plants built by this company in the very center of the regions where cattle and hogs are fattened for slaughter make possible a new concept of direct buying. This concept involves the purchase of slaughter cattle and hogs by the meat packers directly from the farmer, thus by-passing the central livestock market. Direct purchasing results in a number of economies, including lower transportation costs and the elimination of commissions and handling charges, which generally means a higher return to the farmer for his livestock and lower raw material costs to the packer.

Cattle buyers are no longer located in the central markets where cattle are brought by the feeder to be sold. Instead, each buyer is assigned a farming area of one or two counties which he constantly covers in a radio-equipped car. It is each buyer's responsibility to know the location, number, and quality of all feeder cattle within his territory. He examines and purchases the cattle while they are still on the farm without the stress and strain of central market conditions. This procedure not only permits more selective buying, but also enables closer coordination between purchasing, production and sales facilities of the company. Each buyer is in constant contact with the central buying office which is also in contact with the sales division. Any change in the live or dressed markets is immediately relayed by radio between the two divisions.

The close coordination of buying and sales diminishes the possibilities of a profit squeeze during price fluctuations. The details of each purchase transaction are radioed to the central buying office for use in establishing production schedules.

In addition to introducing a new concept in buying operations, Iowa Beef Packers, Inc. has introduced a new philosophy in production methods. Rather than constructing large multi-purpose plants similar to those in the central terminal markets, the company constructed small specialized facilities. Plants constructed in Denison, Iowa, in 1961 and Fort Dodge, Iowa, in 1962 are beef slaughter facilities only. A pork slaughter plant was constructed in Perry, Iowa, in 1963, and a plant to cut pork carcasses into primal cuts was constructed in Perry, Iowa, in 1964.



Mr. McGill inspects dressed carcasses with John Galloway, marketing vice president.

These new, modern plants were built to incorporate the latest in automated equipment. They are characterized by optimum automation and utilization of time, motion, equipment and space, with major emphasis on simplicity, efficiency, and economy. Animals for the kill floor, after being trucked in from Midwestern feeders, are generally slaughtered on the day they are received. Virtually no physical handling occurs in the entire plant process since from the time a beef is humanely killed until the dressed carcass is loaded into a railroad car or truck, it rides on a continuous overhead rail conveying system. During the production process, they are machine-skinned, electrically-sawed, and dressed on a mass production basis. Other innovations such as compressed-air powered knives, mechanical arms that strip hides from animals and other machines enable the company to enhance operating efficiency. Carcasses end their inplant trip in coolers from which they move directly to rail and truck loading docks where they leave the plant in nothing smaller than truck loads or refrigerated freight cars. Automation has reduced the cost of the slaughter operation to as much as fifty percent below that experienced in many older packing plants.

The small specialized plants make possible several other operating economies Plant inventory — which is almost entirely "goods in process"— is turned over about three to three and one-half times weekly. Cattle are usually sold before they are dressed and dressed carcasses are stored in coolers no longer than thirty-six hours prior to shipment. Risk of market fluctuation is minimized by matching the animal purchases against dressed meat sales. Restricting shipments to truck or carload lots and selective selling enable the company to maintain a credit policy of a maximum seven-day payment basis. As a result, the company has not yet incurred a credit loss in its $330 million in sales since commencing operations.

Management of this high volume fast turn-over business requires a constant flow of accurate and current information. Daily, weekly and monthly reports provide management at all levels with a wide variety of management information. A gross profit is computed for each lot of cattle purchased and a net profit is computed weekly for each buyer and each production facility. Production reports indicate the yield of dressed weight to live weight, yield for each of the thirty categories of by-products, number and extent of hides damaged, the percentage of shrinkage incurred by carcasses while hanging in the coolers, the percentage of shrinkage for hides stored in the hide house and labor cost per head of product processed for each productive department. Each of these reports is compared with operating standards and with similar reports of the other plants. Aging of accounts receivable is prepared daily. These and other reports are used to evaluate the operating efficiency of each plant and each responsible individual. An annual employees' bonus equal to ten percent of net earnings before taxes is distributed on the basis of these operating evaluations.

This new concept in meat packing has been successful. Since commencement of operations of March 1961, Iowa Beef Packers, Inc. has grown to be the third or fourth largest beef slaughterer in the nation. Sales for the year ended November 2, 1963, were almost $168 million. The company was ranked Number 309 in *Fortune Magazine's* 1964 study of the nation's 500 largest industrial corporations. They were ranked first in sales per employee ($249,884), first in sales per dollar of invested capital ($32.11), second in increase in sales (114.6%), and thirteenth in return on invested capital (21.3%). Earnings per common share for the first three years of operations have been $.41, $.83, and $1.51. Earnings for the first six months of 1964 were $1.31 per common share.

Although these results speak for themselves, to date the major packers have been slow to move in the direction of the smaller, regional plants for two very important reasons. First, many of the larger packers have sizeable investments in existing slaughtering plants that have not been fully depreciated. While the majority of these plants are extremely inefficient to operate, managements for the most part have been reluctant to abandon them and suffer the write-off that would be required. Secondly, and perhaps equally important, union contracts which many of the larger packers have entered into call for substantial severance payments and relocation privileges when jobs held by union employees are eliminated as a result of plant closings.

The major packers have not been completely oblivious to the problems they face, for a number of plants have been closed and new facilities constructed. However, either through lack of progressive management or because of difficult labor problems, a majority of the plants built today have not incorporated all of the labor-saving machinery and equipment and operating methods necessary to produce at maximum efficiency. Frequently the new plants built have been little more than carbon copies of the old and thus suffer from many of the same inefficiencies.

While the industry leaders are still evaluating the effects of these changes in their industry, another phase in the evolutionary process is being explored. Management of Iowa Beef Packers, Inc. has been studying the economic feasibility of constructing a beef breaking plant which would further process the beef carcass output of its slaughter plants by dividing the carcasses into primal cuts of beef (i.e., loins, chucks, ribs, plates, etc.). An operation of this type, conducted in a highly automated plant using production-like methods, would involve a capital investment of several million dollars. At present the company ships carcasses of beef to meat wholesalers and supermarket chains along the Eastern seaboard to break the carcasses into primal cuts of beef. Such processing involves considerable labor and, in addition, generates meat trimmings which are frequently shipped back to the Middle West where they are used in the manufacture of animal feeds and other edible and inedible meat products. It is management's belief that the company can perform this processing more economically than can its customers. These economies, together with the freight savings realized by eliminating the shipment and re-shipment of waste products, could produce substantial profits. A pilot plant is now in the planning stage.

When the concepts of the specialized slaughter plants in the center of feed-lot operations and highly automated Midwestern breaking plants become generally accepted, the meat packing industry will certainly be back on its way up.

PROFITABILITY ACCOUNTING: A Useful Tool for the Defense Contractor

by James V. Mitchell

Defense contractors probably have more requirements and uses for efficient accounting systems than any other industry. The complexity of the organizations and products of the large contractors presents a real challenge for developing meaningful cost accumulation and internal financial reporting. Many companies have the latest in modern data processing equipment and techniques to create information, yet have a mass of separate systems for various purposes and an account structure and reporting system that is addressed to the requirements of outsiders. There is a lack of integration between systems and a subjugation of what should be the primary goal of an information system — developing data for management control.

The dependency of sales price on cost identification through cost reimbursement contracts has placed the emphasis of these companies' accounting systems on contract cost accumulation. Historically the accumulation of overhead, research, marketing, and other indirect costs has been pointed toward the method used to allocate or apportion these costs to contracts. Usually these categories of accumulation have no alignment with cost responsibility nor have these distribution pools lent much insight into the behavioral characteristics of the costs involved.

Typically the members of this industry have looked upon themselves as being in a unique situation, perhaps more so than in most industries. This is probably caused by the conditions that exist in dealing with a military customer, even though many large contractors also have a substantial portion of commercial business. Then too, a number of companies have tried over a period of years some of the widely used accounting techniques on a separate system basis, but have experienced difficulties in making them work under these conditions.

The influence of dealing with the government

The long-standing habit of having the military customer look over your shoulder into your books has substantially influenced the approach of these companies to their accounting systems. Cost reimbursement contracts have always been subject to government audit. Also, subcontracts on prime cost reimbursement contracts are subject to audit by the prime contractor who has the responsi-

bility for the justification of the subcontract cost. As a practical matter, many fixed price contracts have also been subject to cost review. During the process of negotiation on follow-on contracts, the government is allowed to review the cost experience on the initial contract as a means of evaluating the contractor's bid on the follow-on contract. This subjects the contractor's mistakes to criticism and reduces the opportunity to repeat in capitalizing on advantageous conditions.

Another problem that stems from the continuing association with the military is the inconsistency between the cost breakdown required for purposes of contract negotiations or audit and the internal company assignment of cost responsibility to individuals. Whereas internal responsibilities and assignments change and take different forms over a period of time, the classifications of the customer remain virtually unchanged. Gradually the main accounting framework moves toward the classification system that is consistent, that is the customer's, and away from that which is most useful for cost control, the company's, which ultimately results in a company maintaining an accounting system for the benefit of its customer. In many cases this is true even to the extent of using the terminology or jargon of the customer in account titles and in reporting categories.

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This characteristic is particularly true in the area of overhead costs. The problems of accumulating, assigning to products, and forecasting overhead costs into the classifications used for military pricing are substantial. A number of these problems are caused by the government having either ruled on the allowability of specific types of cost or on the allowable method of allocating specific costs. This puts the company in the position of having to show that it is complying with previous rulings.

At times the overhead rates of competing contractors have been a significant consideration of the customer in choosing a source of supply. The trend of a company's allowable military overhead rate or the relationship between a company's overhead rate and that of its competitor is extremely important. Yet, in most cases, there is no integrated method of tying the responsibility for overhead spending via the budget with the expression of these same costs in an allowable military rate.

One obvious influence on a change in the overhead rate is a change in the base activity, usually manhours, over which the fixed costs are spread. Another influence is the shifting of the ratio of military to commercial work within the total workload, particularly where there is a substantial amount of fixed costs which are only partially allowable under military contracts.

Definition and segregation of fixed costs present problems in companies which gain or lose substantial volumes of work through large contracts. A definition of the level of fixed costs under current conditions may become completely useless when a large contract is terminated.

Government involvement increasing

The involvement of the government in the specific costs of the contractor appears to be increasing. The latest government regulations on contract negotiation and pricing specifically state that the contractor should emphasize and be responsible for cost control. Toward this end the allowable profit percentage varies between different types of activities within the contract. These differences are supposed to compensate the contractor for differences in risk, schedule, quality performance, cost experience, and the degree of accuracy with which costs can be predicted. Thus the contractor's requirement for internal cost control, use of improved budget techniques, and analysis of costs will undoubtedly be increased.

The influence of changing products

During the past few years government contractors have changed from producing relatively large quantity orders, involving substantial fabrication and assembly effort, to much smaller quantities of highly complex end products. The volume of developmental, research and experimental activity performed for the government has also increased tremendously. This means increasing lead times, a high proportion of engineering changes, and use of material and production techniques which are untried. All these things increase the problems of estimating or budgeting the costs with any degree of precision. The number of items which have to be predicted increases and complicates the problem of keeping up to date on the changes to the original estimates. The definition of the pieces of work that need to be accomplished, as they are known at any one time, becomes much more difficult.

Contractors are getting away from types of work which are readily applicable to use of standard cost techniques and into work where the use of standards has not been very extensive, such as tooling, production planning, engineering, testing, etc. The variety of these activities requires that a variety of estimating, budgeting, and forecasting techniques be used in order to develop planned costs to be used in controlling status. In contrast to many industries where these activities are considered to be overhead and therefore subjected to such techniques as variable budgeting, here costs are usually considered to be direct contract costs. It is usually necessary to break each cost area into specific packages of work, the packages of work being further broken down to individual responsibility for segments of the package. The result is an ever-increasing number of items to be budgeted and reported, which has an effect upon the problem of reflecting changes in conditions or plans in individual budgets.

Planning product line costs

The key to successful integration of the needs for cost accumulation is to relate costs by individual responsibility, and then to the contracts on which they apply, and finally to the product line of which the contract is part. This must be accomplished not only for the current fiscal period but for the life of the product line. The special-purpose characteristic of the product and the rapid technological change of the industry require that current period figures be referenced to the history and probable future of the product line in order to evaluate status or profitability. This starts with the budgeting and performance reporting on the research and development activities connected with the product line; continues through the engineering, production planning, and tooling that takes place prior to fabrication; through development of production standards, to performance reporting for the fabrication and assembly effort; and finally to budgets and performance reporting for product testing, delivery, and customer service costs in the latter stages of contracts.

With so many different direct costs in each product line, analysis of changes in planned costs is rather complex. Cost characteristics or relationships which were originally forecast in very general terms must continually be redefined and developed in more detail without losing completely the expression of the costs which were used in the original planning and decision making.

For example, at the time of the development of a product line, it may be necessary to predict cost relationships over the seven or eight years which are estimated to be the life time of the line. Not only must the original research, development, engineering, planning, tooling, etc. be estimated, but also the probable requirements of the sustaining costs of these various activities during the production cycle. It is also necessary to predict the probable phasing of the retooling, continuing product development, or major production scheduling activities involved in recurring start-up peaks caused by additional contract or technological improvement of the original product that are likely to occur during these seven or eight years. The exact design of the product may not be known and thus standard material and labor costs cannot be computed with any precision.

At the outset of the product line the important thing is really the systematic presentation of all the anticipated costs to the degree of detail known at the time. As the product is designed and unit material and labor standards are developed, it is as important to relate these standards to the original estimate of unit costs as it is to report performance against the standards. The same is true for tooling and engineering budgets. Too often lack of profitability of the product line can be attributed to the difference between what management thought the cost would be at the outset of the program and the costs which are currently obtainable and are being used as targets by the operating managers. The profit variance caused by wishful thinking or inadequate planning is surely one of the most significant factors to report in this industry.

Identifying costs to individuals

The detailed buildup of planned costs by level of responsibility for some of the giant companies in this industry is a monumental undertaking. Yet, it is a task which is almost unavoidable if effective cost control is to be attained. The problem is really in the structure and mechanics of accumulation. Typically there is no shortage of technical people and cost estimators within the operating departments. The continuing requirement for preparing bid data and keeping up with the technological changes of the products makes this a necessity. In spite of the great mass of detail which supports etimate, forecast or budgeted figures on the detail level, it is frequently impossible to relate the final negotiated cost target (or even the current performance targets being reported in the financial and control reports) to the targets or standards being used in the operating departments. This occurs for a number of reasons. One is the relatively long review and negotiating process, both within the company before submitting the bid, and with the customer in arriving at the terms of the contract. Another is the age-old problem of the finance department's converting the submitted figures into either accounting or contractual jargon which is not useful to the line people in controlling costs.

In some cases whole plants or organizations may be committed to only one contract or one product line. In other cases several contracts or product lines may be worked on by one organization. These product-organization relationships will change periodically. The accounting system, therefore, must be flexible enough to facilitate a broad range of such combinations.

One of the most important requirements for control information by the line manager is that he see the distribution of actual work performed by the organization for which he is responsible between the contracts or product lines. This is particularly true in shops or departments that work on a variety of things. Too much emphasis on contract reporting tends to overshadow the problem of department or organization management. The individual manager is left with the task of digging out and accumulating data essential to production, scheduling, shoploading, and determining manpower requirements.

Budgeting by responsibility has also been a problem because of the constant changes in organization structure by the large contractors. The changing of organizations particularly affects companies with a large number of service organizations. Apportioning the costs to the organizations served after initial collection by spending responsibility requires constant surveillance under changing conditions.

Variances as period costs

To date most of the literature on profitability accounting cites examples in which variances from planned or standard costs can appropriately be treated as period costs as they occur. However, in the case of industries with a prevalence of cost reimbursement for incentive contracts with the government, overrunning planned costs does not necessarily result in a reduction of profit. In such cases it seems appropriate to inventory such variations and to recognize the reduction in profit only when the work on the contract has proceeded far enough to evaluate the possible total over or underrun and the accompanying effect upon fee. This is particularly true when the sharing of gain or loss is computed on the basis of performance on the whole contract rather than on specific items within the contract. In most cases, this treatment is consistent with current accounting practices within the industry, whereas the immediate writoff of variances is not. However, it is important to give visibility to the reasons for variations from planned profit, i.e., segregating the effect of overrunning from the effect of cost sharing.

Therefore, if the concepts of profitability accounting are to be retained, provision must be made for the reporting of the variance in inventory as an expression of the probable effects on profit. This must be done by responsibility and by the behavioral classifications of costs used under these concepts. In many cases these variances can also be appropriately identified to a specific product line which, again, is in contrast to most of the literature published so far.

A significant problem in this area is that expressions of variance or efficiency build up in the inventory accounts because of the long lead time between the fabrication of parts (and the creation of variances) and the actual delivery of the end item. At the time the item is delivered, it is appropriate to use an assignment of variance that is typical of the product line experience up to that point in time.

Fixed overhead as period costs

Likewise, the formal identification on the books of standby and programmed overhead cost apportionment to product lines is consistent with existing industry accounting practices. Many contracts will extend over two or three fiscal periods of a company. Therefore, fixed costs of two or three different years must be assigned to such contracts. Variations in total production volume or in the work mix between military and commercial during the life of the contract may well make the apportionment of these fixed costs substantially different in these years. Keeping track of all the assignments of the standby and programmed expenses and efficiency variances on a memorandum basis seems to strike at the heart of an objective of profitability accounting . . . to provide an integrated system which essentially eliminates the need for memorandum systems.

Therefore, it would seem more desirable to make formal allocations of these costs on the books and place increased emphasis on analysis of cost status as they are assigned to inventory. This necessitates developing methods of expressing efficiency as costs are incurred, and must be linked with the same type of expression of efficiency that will result when costs are transferred from inventory to cost of sales as billings are made. The linking device would be similar to a budget variance.

Product line cost accumulation

The accompanying statements exemplify the type of reporting classifications which meet some of the requirements of these companies. Statement A is an over-all summary of total product line costs over the total lifetime of the product line. It shows past cost experience, including performance to date, and the original estimates at the time the primary decision was made to commit the company facilities and effort to the product line. It might be necessary, in certain cases, to also include information as to total estimates of cost at other significant decision making times (current plan) in the history of the product line. It is most important to establish consistency in expression between planned costs made at different points in time so that management does not lose sight of basic reference points and assumptions. It is also important that the same kind of expression be given to all product lines, particularly to insure consistency as long range business plans are pulled together for the whole company.

Statement B is a summary of the product line costs that relate to the current fiscal year. Quite often these costs relate to several contracts with end product deliveries spanning a three or four year period. As contrasted to industries where a large portion of the current year's production is for putting end products "on the shelf" (ultimate sales order unknown), the majority of these costs will relate to specific contracts. It is noted that these are classified according to whether they are variable (with end product production activity), programmed or standby. The latter two classifications include costs which do not bear a direct volume of spending relationship with production volume. It might be said that these are the presently committed costs of carrying on the product line. Note that the traditional classification of direct vs. indirect for government contract costing has been subjugated to the classification of cost behavior.

Statement C is typical of the further breakdown of cost (for any major category) required to get down to useful classifications at the working level. Variable costs, in this case, are related to either of two major activity bases — standard labor cost of fabrication and assembly time represented by end products or standard material cost required for the end products. Manufacturers generally consider that supporting costs should bear a direct relationship with fabrication efforts. There may be a lead-lag relationship between the incurring of fabrication and rework or scrap which should be given consideration in the anticipated timing of incurring cost month by month, but over a longer period these costs should bear a fairly consistent relationship to the activity base. The variation from planned cost is termed merely *over* or *under* to avoid confusion with the term *variance* which is applied to the activities which have approved engineered standards.

Statement D depicts the rearrangement of data necessary to consolidate the total direct labor performance for any particular manager. Each of the columns in this report might be further broken down on supporting reports showing performance on each major package of work within the product line pertaining to that department.

Research and development cost accumulation

Research and development work often take on the characteristics of a product line and can be reported as such. Usually these are relatively large projects that may stretch over a two or three year period. They could be financed either by the government, by the company, or by a combination of both. The lifetime of a research product line would probably last until the first production contract is obtained. Generally the projects affect almost all departments of the company and are subject to the same requirements for cost and status control as are production product lines. In fact, due to incentive and cost sharing provisions of production contracts, underruns and overruns on research and development can have a more important effect on company profits than production work. Although research is often included in allowable costs in making overhead allocations to contracts, it is often the

A. PRODUCT LINE SUMMARY ALL YEARS

	TOTAL COSTS		VARIABLE						PROGRAMMED						STANDBY OVERHEAD ALLOCATED	
			DIRECT LABOR		MATERIAL		VARIABLE OVERHEAD		DIRECT LABOR		VARIABLE OVERHEAD ON DIRECT LABOR		PROGRAMMED OVERHEAD ALLOCATED			
	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*
1963																
1964																

B. PRODUCT LINE SUMMARY YEAR 1964

	TOTAL COSTS		VARIABLE						PROGRAMMED						STANDBY OVERHEAD ALLOCATED	
			DIRECT LABOR		MATERIAL		VARIABLE OVERHEAD		DIRECT LABOR		VARIABLE OVERHEAD ON DIRECT LABOR		PROGRAMMED OVERHEAD ALLOCATED			
	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*
PRIOR TO 1964..																
1964																
JAN																

C. SUMMARY OF VARIABLE COSTS INCURRED YEAR 1964

	TOTAL COSTS		STANDARD FACTORY COSTS				NON-STANDARD COSTS										NON-STANDARD RATES COST	
			LABOR		MATERIAL		ENGINEERING LABOR		TOOLING LABOR		TOOL MATERIAL		QUALITY CONTROL LABOR		CUSTOMER SERVICE & TEST LABOR			
	Over (Under)	Actual Forecast*	Vari-ance	Earned Forecast*	Vari-ance	Earned Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Per Standard Labor $	Per Standard Mat'l $
PRIOR TO 1964..																		
1964																		
JAN.																		
FEB.																		
MAR.																		

D. TOOLING DEPARTMENT LABOR YEAR 1964

	TOTAL COSTS		PRODUCT LINE 1		PRODUCT LINE 2		PRODUCT LINE 3		RESEARCH PROJECT A		RESEARCH PROJECT B		DEVELOPMENT PROJECT A	
	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*	Over (Under)	Actual Forecast*
JAN.														
FEB.														
MAR.														
APR.														
MAY														

policy of the government to place an upperlimit on the amount of research which can be included.

Much of a company's investment in a product line consists of these company-sponsored research and development costs. Research benefits might accrue to more than one product line and these relationships should be considered in making the return on investment analysis and reporting typical of a profitability accounting system.

It is important to emphasize again that these companies need two separate analyses of costs — one on the basis of planned costs as they are incurred and another on the basis of cost and sales relationship as deliveries or billings are made. It is also important to emphasize that these two stages of reporting must be tied together in order that the effects of cost performance on reported earnings be given visibility.

Earnings statement

The earnings statement should follow the general format suggested in Robert Beyer's book "Profitability Accounting for Planning and Control." This statement sets out variations from planned profit caused by variations from planned sales volume and profit contribution. It also emphasizes the impact of programmed and standby cost allocation on the profitability of the product line.

The heart of the earnings statement lies in the "variance" column, because here should be the expression of the dollar effect on profits of all of the variations from planned costs. This becomes a substantial list because of the complexity of the companies and the variety of activities involved in the typical contract. There are, of course, the usual performance variances on fabrication and assembly work arising from comparison with labor and material standards. Spending variances on budgeted overhead by responsibility are also applicable. The budget variance (arising from the conversion of the spending budgets into product cost absorption rates) requires segregation because of the variety of factors involved in that conversion. These factors are changes from the planned mix of military and commercial hours, changes from the anticipated volume of interdivisional work (where separate divisional military rates are used), changes from the planned mix of manufacturing and engineering hours (if separate military rates are used), and a number of others.

The above are not complications created by a profitability accounting system, but merely a systematic method of isolating the reasons costs and profits vary from that which was planned. Present systems in this industry often bury these very significant factors, thus leaving a gap between departmental overhead budgets and unexplained changes in contract overhead rates.

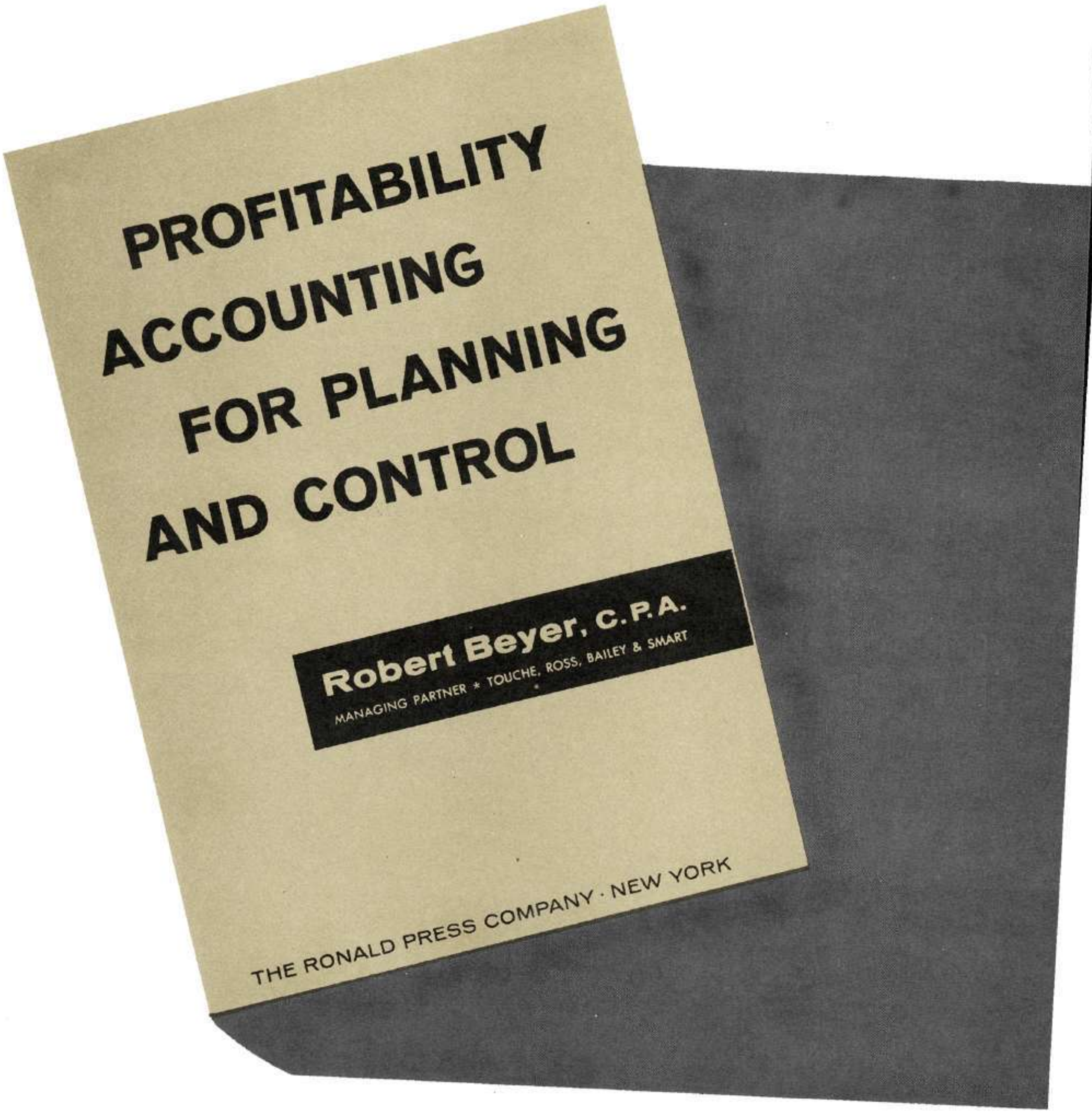
The overrun on activities not subjected to engineered standard costs are also included with the variances. Even though budgets on some packages of work or activities might be developed in a very informal manner, they are incorporated into departmental and product line targets. Generally the degree of precision with which budgets are prepared will depend upon the economics and practicability of the various alternative techniques which could be used in each circumstance.

Through this type of presentation management is able to see the impact of variances from planned cost on both deliveries to date and future deliveries (those represented by inventory costs). Merely bringing planned costs into the earnings statement along with a "lump sum variance" or "overrun" won't answer the important questions of management. A substantial detailing of specific variances should be available and, as emphasized earlier, should include isolation of the effects of overspending, of the sharing with the government of over and underruns, and of the averaging effect caused by inventorying variances.

This kind of information, coupled with segregation of costs into variable, programmed and standby categories, results in a useful and meaningful structure in which to report actual experience as well as to build up the variety of planned costs which typify this complex industry.

Summary

The government contractor has to deal with a considerable number of problems in attempting to develop a truly integrated accounting and reporting system, particularly those contractors in highly technical and rapidly changing fields. Few, if any, have ever succeeded in developing such a system. The concepts of profitability accounting offer a real opportunity to these companies if clerical and mechanical techniques can be developed which recognize the complexity of the companies and their products. A great deal of the complexity is caused by historical patterns built up over years of dealing with the government. In a profitability accounting system it is necessary to include and recognize these patterns. Specifically, the formal allocation of fixed overhead to contracts stands as a major deviation from most of the literature to date. Another deviation is the flow of variances through the inventory accounts and all variances not necessarily being treated as period costs. It appears that these and other considerations can be resolved without changing the fundamental concepts and objectives of an integrated management accounting and control system.


PROFITABILITY
ACCOUNTING
FOR PLANNING
AND CONTROL
Robert Beyer, C.P.A.
MANAGING PARTNER * TOUCHE, ROSS, BAILEY & SMART
THE RONALD PRESS COMPANY · NEW YORK

MILWAUKEE

MILWAUKEE

In the fall of 1948, when the thirteenth office of Touche, Niven, Bailey & Smart was opened, the staffs of other Milwaukee CPA firms were fond of saying that "TNB&S" meant "Too New to Be Significant." In Milwaukee at that time it was almost true. Bob Beyer sat on the thirteenth floor of the Majestic Building dreaming of that day when he might have thirteen new clients . . . and even, perhaps, thirteen employees.

When he wasn't in the room with the black-painted window (previously a dentist's dark room) he could look over the city and see opportunity. He must have thought that if he kept his goals in focus he might become more than "resident manager" of a two-employee office; if he dedicated himself to the business he might become "partner in charge." He did dedicate himself to the business. He did become "partner in charge." And the Milwaukee office continued to grow.

In fact, he did the job so well he finally had to be replaced. Because of his dedication to the welfare of the firm on both a local and national level, the partners called upon him in 1962 to become managing partner. Of this contribution the Milwaukee office is justly proud. Everyone who has served under him in Milwaukee has felt the influence and shared the benefits of Bob Beyer's outstanding efforts and leadership.

But the Milwaukee story is not about Bob Beyer alone. The office grew to number 70 employees. New space was added and the walls seemed to be forever coming down for more expansion. Finally, the makeshift arrangement became unwieldy and the office was moved to new quarters in the Marine Plaza, the newest and tallest office building in Milwaukee. Again the thirteenth floor was selected for the office quarters.

At the beginning there were a few significant clients from the three-firm merger: Bucyrus-Erie Company, Square D, Wisconsin Motors, Gimbels, Boston Store and the Nash (American Motors) manufacturing plants. These clients reflected the heavy manufacturing and commercial character of the early business history of the city. The services rendered to them at that time were primarily audit and tax services. They were performed by the first employees of the office—Olaf Knudsen, Jim O'Brien, Bob O'Keefe, Bob Schrimpf and Walter Renz, all of whom contributed much to that period and later accepted top management positions in industry.

Much of this work was seasonal and left idle time in the summer for personal and business development. Soon the early integrated services concept began to show its effect in new business. The expanded practice required additional staff, including the people who are the present partners. Roger Froemming, now partner in charge, came in 1952 from industry and a local tax practice. Roy Wetterhall was transferred from Detroit in 1951 to direct tax services. Ralph Marsh came directly from the University of Wisconsin and is the "oldest" local representative in terms of years of service to the Milwaukee office.

The business approach to audit and tax problems brought many related engagements in what was then known as "systems" work. Although some staff members developed expert knowledge in such fields these systems assignments were frequently performed by regular audit staff members wearing their businessmen's hats. Naturally the problems were more directly related to accounting and control functions and did not include all of the highly technical and specialized services offered by the firm today. These early engagements implemented many of the

The signing of a report temporarily interrupts dictation — Mary Rehorst, proofreader, Roger Froemming, partner in charge of the Milwaukee office, and Mayme Solberg, secretary to Mr. Froemming.

A discussion of trend statements — Roger Froemming, Orville Mertz, vice president of Koehring Company, Lou Robertson and Don Trawicki.

management tools that later developed into "Profitability Accounting," which integrates their usefulness and multiplies their individual effectiveness. Standard cost inventory systems were developed for such clients as Wisconsin Motors, although the pegboard application used might appear rudimentary compared to today's computer systems. Forecasts were an annual assignment for another client. Charts of accounts were tailored to suit various enterprises. Expense budgets were developed for such manufacturers as Racine Hydraulics & Machinery, Inc., although the use of scientific work measurement techniques did not come until later.

A conference on four-wall inventory concepts and problems — Frank Mickler, Glenn Solsrud, George Heberer, Gerry Elmer and John Brockschlager.

Tax discussion — Bill Bonfield, Roy Wetterhall (partner), Jay Lieberman, and Don McNamara.

The Milwaukee Office's reputation for enthusiasm in being ready to assist clients in all of their business problems resulted in many new clients during the 1950's. Koehring Company, whose 1951 sales were $24 million dollars, and now as a NYSE Company exceed $100 million dollars; Kenosha Auto Transport Corporation, a major automobile carrier; Nekoosa-Edwards Paper Company; Universal Foods, and The Valspar Corporation.

The office's growth through integrated service provided a perfect climate for personal development. Wayne Mayhew added Profitability Accounting concepts to his expert knowledge of the food processing industry. Bill Pennow had so many "first audits" it seemed years before he saw a program he hadn't written. This fostered the independent challenge which he presently brings to his report review responsibilities. Bill Sutherland transferred from Detroit to help in the tax department and now administers overall services to people who must pay taxes. Jay Lieberman spends much of his time looking for ways clients can avoid taxes altogether. And of course, Don Trawicki learned from both "doing" and "writing" Profitability Accounting. Lou Robertson, the busiest man in the office, learned everything but how to keep scheduled vacation plans.

Among people who gained valuable experience during this period and accepted responsible positions in industry are Don Best, Jack Schuett, Dick Parker, Clarence Baudhuin, Jim Gibson, Lou Zastrow, Joe Bennett, Ken Rammer, Bob Nienow and Pete Stolz.

Moreover, Milwaukee's proficiency in all services has provided important personnel to other offices: Irv Featherstone and Chet Brisley to the Executive and New York office MS staff. Max Sporer and Ken Schuba to other offices. Don Stark to the tax department in Memphis and Clarence Holtze to the Minneapolis audit staff.

Management services continue to be an important part of its practice under Roger Froemming's direction of the Milwaukee affairs. Semi-annual seminars covering both "Profitability Accounting" and "Accounting for Non-Financial Executives" are conducted at the University of Wisconsin Management Institute. In these and other presentations to management Don Trawicki is assisted by such talents as Bill DeTroye, Fran Butz, George Heberer, Gerry Mainman, Jerry Elmer, Frank Mickler and others.

The audit supervisors, Milt Kuyers, Oscar Miltz, Lee DeDecker, Lloyd Brown and Bill Bonfield continue to stress the business approach to auditing. Much help is being received from the newer staff members in all departments and from Mrs. Solberg's clerical and secretarial staff.

The Milwaukee story is an interesting and successful one. It is unique in that the growth to present size occurred in a relatively short span of years. One might ask how this was accomplished. The answers from Milwaukee are many—Good leadership; integrated services to clients; encouragement of personal development; team effort; maximum talent utilization; recruiting capable individuals. All of these play an important part in the growth of any office and certainly must have contributed to Milwaukee's growth. But it has another ingredient which helps to make life more interesting, whatever the goals. This is best described as enthusiasm.

Guideline depreciation problems are discussed by Bill Sutherland and Ralph Marsh, newest partner in the Milwaukee office.

Audit conference on a food processor — Lee DeDecker, Bill Pennow, Wayne Mayhew, Jr., Oscar Miltz and Vic Haen.

Our switchboard operator, Jane Cleary.

Janet McGurn, the Milwaukee office's bookkeeper, discusses a typing matter with Kathy Dennerlein and Loralie Van Sluys, secretaries.

The Unsolved Problem of Fixed Asset Evaluation

by Howard I. Ross

A reprint from the "Canadian Chartered Accountant"

It is somewhat discouraging to find how much good work can be done on the theory of financial reporting, while such relatively small progress is made in the practical task of producing better annual statements. There have certainly been plenty of good technical articles, some excellent panel discussions, some devastating criticisms of the inadequacies of conventional statements—but it is hard to detect all that much radical improvement in published accounts. Auditors are essentially critics, and it may be that they are more effective in complaining about what is wrong with statements than in producing better ones.

The Exaltation of Procedures

The accounting profession tends to be dazzled by the ingenious and brilliant device of double entry bookkeeping. Thus instead of regarding itself as the custodian of the art of financial communication, the accounting profession at times appears to behave as though it considered itself the custodian of the art of double entry bookkeeping. Some pronouncements by accounting experts would almost suggest that the most important objective for accountants is the disposal, in a systematic manner applied consistently from year to year, of the balances thrown up by the double entry bookkeeping system, rather than to provide the most informative financial statements that can be produced.

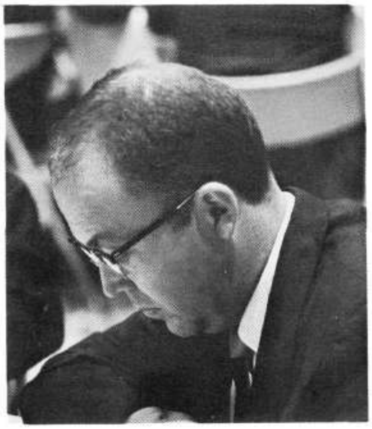
NRMA Seminar

Joseph Ross, President, Davidson Bros.

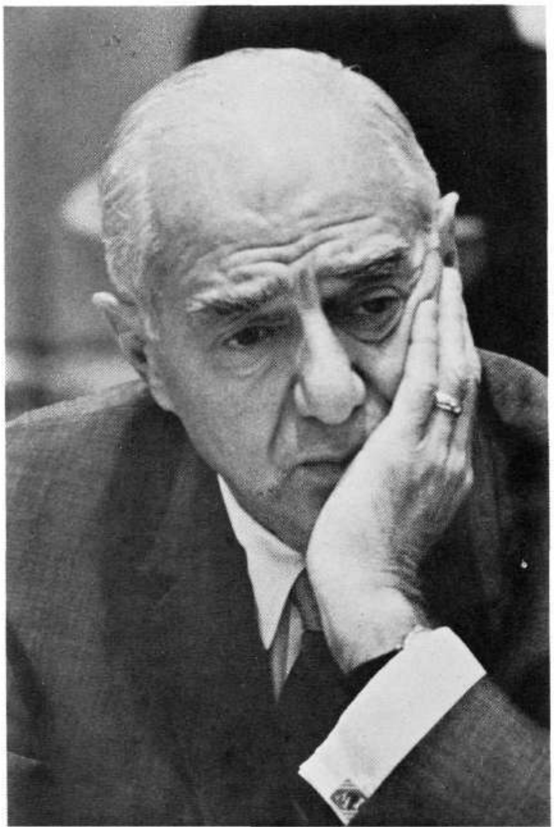
Richard R. Pivirotto, President, Joseph Horne.

John A. Patterson, President, Gertz.

John Curry, Vice President, the Dayton Company.



Paul Leonard, President, Leonard's.



Isadore Winkelman, President, Winkelman's.

NATIONS TOP EXECUTIVES LEARN ABOUT SYSTEMATIC MANAGEMENT

Twenty-eight of the nation's leading retailers went to school this summer, and what they learned is expected to generate many changes in the world of retailing in the near future.

The "school" was a special two-day management conference —"The Challenge To The Store President"— presented by the Retail Research Institute of the National Retail Merchants Association on June 23 and 24 in the Time-Life Building Auditorium.

The program, developed by Touche, Rose, Bailey & Smart, traced in detail the tremendous strides made in computerized systems management in many areas of business and government, and emphasized the importance and urgency of the role top retailing management must play for the most effective utilization of computers and electronic data processing.

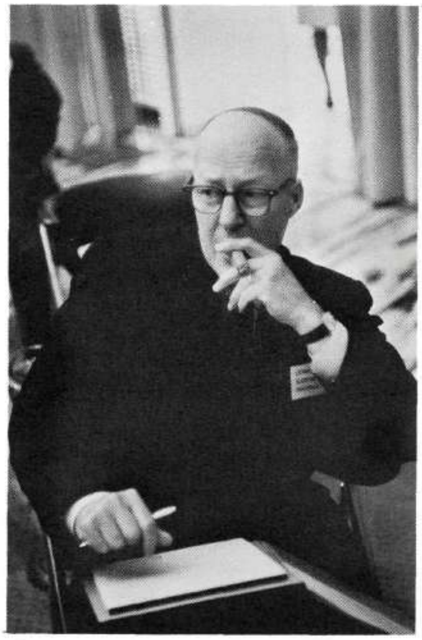
This was the first time that store presidents have addressed themselves to the problems of the systems function. Attendance was limited, and every effort was made to compress the time it takes to impart information. Visual, audio and environmental controls were all put into play.

Rear screen projection was used, and colorful slides were shown on a specially built panoramic screen which showed two images. The executives viewed a TV-taped symposium made especially for the conference and moderated by Edward Bursk, Editor of the Harvard Business Review, in which officers of large industrial companies using the total systems approach discussed their programs. Controlled coffee breaks became discussion groups with a specific subject and a report to be made. There were also a number of programmed discussions in which the concept and practice of systematic management was applied to each man's specific needs.

Guest speaker Lou R. Hague, Director of Advanced Business Systems for Westinghouse Electric Corporation, spoke on Management Information Systems. The speakers from TRB&S' Management Services Division were Justin Davidson and Carroll Ebert from Chicago; Roger Crane, Richard Sprague and William Power from the Executive office; Joseph Buchan, Minneapolis; Joseph Miller, New York; and David Fleisher and John Keydel, from St. Louis.

A "Presidential Plan of Action" was set forth on the concluding day underlining what the store president should do now to prepare his organization for the impact of our rapidly advancing management technology.

The conference is being repeated this month, again with attendance limited to twenty-five people.

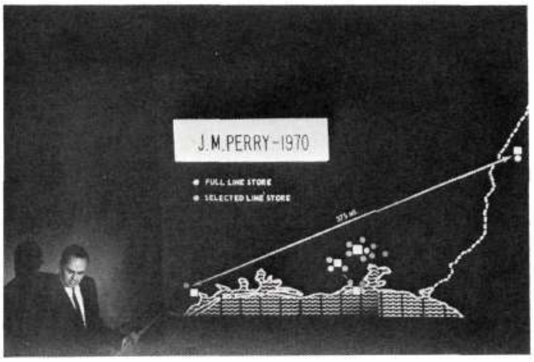


Leonard E. Johnson, President, Gladdings.

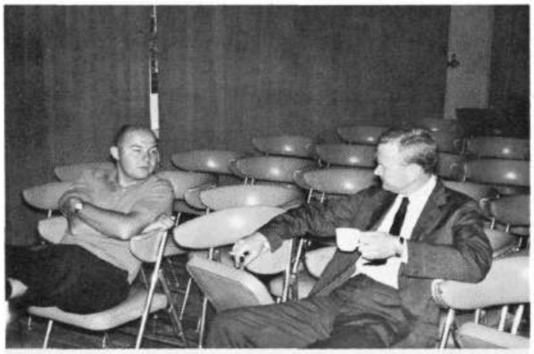
Behind the Scenes at the NRMA Conference

Preparations for our "Challenge to the President" conference began in January, some six months before the actual event. By the end of the first few months, the man hours spent could no longer be counted. Meetings went on into the night and speeches were written in the wee hours of the morning. In the last hectic weeks of preparation, partner Donald Jennings took these pictures of TRB&S personnel hard at work.

Shirt sleeves and coffee cups . . .



Colorful slides depicted the department store in 1970 . . .



Discussion: Dave Fleisher and Bill Power . . .

Last minute conference . . .

Secretary Sandy Peacock reported for work long before breakfast . . .

Before the appointed hour . . .

BASIC STAFF TRAINING COURSES

CENTRAL TRAINING CENTER PROGRAM
BASIC STAFF TRAINING
DESCRIPTION OF COURSES

The courses to be presented in the Basic Staff Training phase of our Central Training Center program are described below. Most of the courses will be conducted in New York. Each course will be at least one week long and, in some cases, two weeks in length.

The coding of the courses is:

First digit—type of training

1—Basic Staff Training, 2—Specialized Staff Training

Second digit—functional area

1—Audit, 2—Tax, 3—Management Services

Third and fourth digits—level of training

The digit generally corresponds to the staff man's year in a particular functional area and not necessarily the year with the firm. Most tax men and some management services men will transfer into Tax or M.S. after two years on the audit staff.

For example, the Basic Staff Training course for those in their second year on the audit staff is 1102. The course for men in their first year on the tax staff is 1201.

AUDIT COURSES

1102—Evaluation of Internal Control—This program is an analysis of the review and evaluation of a system of internal control with major emphasis on: (1) elements of a system, (2) review of the system to determine the logic of the system and nature of information generated, (3) testing the accuracy of the system and management's use of the information available, (4) evaluating the adequacy of the system and the information developed for management's use, and (5) letters of recommendation. The review and evaluation of controls in an EDP system will be analyzed in connection with a discussion of computer concepts and characteristics.

1103—Auditing Objectives, Standards, and Procedures—This program analyzes auditing objectives, standards and procedures. The discussion of standards of field work will emphasize the planning and timing of audit work and the concepts of existence and valuation of assets and equities. The discussion of the standards of reporting will include types of reports, adherence to generally accepted accounting principles and consistency of application, adequacy of informative disclosure, types of opinions, and SEC accounting requirements. This program will also have a day devoted to basic tax topics.

1104—Management Services and the Auditor—Management services and their relationship to the auditor is the scope of this program. Approximately one week is devoted to Profitability Accounting. The second week of the program will deal with the use of the computer in auditing, including a discussion of test decks and computer audit programs, the use of statistical sampling in auditing, and coverage of applicable tax topics.

1105—Specialized Accounting and Auditing Problems—This program focuses on specialized accounting and auditing problems, including purchase audits and first audits. Also, Operating dissimilarities in industries requiring different auditing procedures are examined. Industries discussed include Savings and Loan Associations, Retailing, Banks, Brokerage Firms, Cooperatives, Hospitals, Insurance Companies, and Finance Companies. Management of the Engagement is discussed to include planning, staffing, and controlling the engagement; reviewing work papers; training assistants; and client relations. The Report Review function and applicable tax topics round out the areas to be covered in this program.

1106—Practice Development and Professional Responsibilities—Practice Development and Professional Responsibilities are the major areas covered in this program. The practice development portion deals with the objectives of our practice development program and procedures for implementation. The methods of building a professional reputation such as speaking and writing are also discussed. The discussion of professional responsibilities includes the auditor's ethical and legal responsibilities. Estate and financial planning and executive compensation plans are among the tax topics discussed in this program.

TAX COURSES

The Basic Staff Training program for tax personnel outlined below is based on the assumption that the employee joins the firm out of school and spends two years on the audit staff before transferring to the tax staff.

1201—Principles of Taxation and Research Methodology—This program is mainly concerned with a broad coverage of the Internal Revenue Code. The program will also include a discussion of tax research tools and services available and tax research methodology. A brief discussion of the organization of the Internal Revenue Service and the tax activities of our Washington and Executive offices is also included in this program. Ethical considerations and responsibilities are also discussed.

1202 — Selected Tax Topics — Basic—This program specifically focuses upon selected tax topics and discusses the topics in depth. The areas to be covered include trusts and estates, partnerships, net operating losses, reorganizations, inventory problems, fixed assets problems, and problems of extractive industries. In addition, changes in accounting methods and periods are discussed along with the review of corporate tax provisions and Revenue Agent's examinations.

1203—Selected Tax Topics—Advanced—This program discusses in some depth several important tax areas such as problems of closely-held corporations and personal holding companies; the purchase, sale, or liquidation of a corporate business and reorganization. Executive compensation plans and other fringe benefits and Estate and Financial Planning are also included in the program. A discussion of foreign taxation rounds out the session.

1204—Practice Development and Administration of Tax Practice—Practice development and administration of a tax practice are the major areas covered in this program. The practice development portion deals with the objectives of program and procedures for implementation. The methods of building a professional reputation such as speaking and writing are also discussed. Legal and ethical reponsibilities, training of tax personnel, the processing of tax returns and control and follow-up procedures are included in the discussion of the administration of a tax practice.

MANAGEMENT SERVICES COURSES

The Basic Staff Training program for management services personnel outlined below is based on the assumption that the employee joins the firm out of school and spends two years on the audit staff before transferring to the management services staff. Experienced men employed from the business community will attend courses after a consideration of the individual employee's abilities and his office objectives and manpower requirements.

1301—Electronic Data Processing—This program is a comprehensive course in Electronic Data Processing. The program evolves through a discussion of basic computer systems and basic programming to advanced programming techniques and operating systems, decision tables, and teleprocessing developments. The use of equipment manufacturers' programs in quantitative techniques such as inventory control and PERT will also be discussed.

1302—Systems Analysis and Profitability Accounting—This program is largely concerned with the concepts and techniques related to Business Planning, Systems Analysis, and Profitability Accounting. The majority of the session will be devoted to Profitability Accounting with emphasis on the use of PA for decision-making and performance measurement.

1303—Quantitative Methods—This program will be devoted to a depth coverage of several quantitative methods important to our consulting activity. The methods to be covered include forecasting techniques, inventory and production control techniques, capital budgeting, statistical sampling, linear programming, and PERT.

1304 — Practice Development and Managing the Engagement—This program largely deals with Practice Development and Managing the Engagement. The Practice Development session discusses the objectives of our practice development program and procedures for implementation. The methods of building a professional reputation and developing and presenting proposals are also covered. Managing the Engagement topics include planning, staffing and controlling the engagement; reviewing the work done; client relations; and follow-up procedures during the client's implementation of our recommendations. The program also includes coverage of tax problems involved in management services engagements such as deferred compensation, mergers and acquisitions, and closely-held companies.

1305—Marketing Services—Marketing Services is the area to be discussed in this program. Topics included are: (1) organization of the marketing function, (2) marketing strategy and long-range planning, (3) measuring and controlling marketing efforts, (4) marketing research, (5) marketing information systems and the computer, (6) sales forecasting, and (7) pricing.

Below are the committees set up to implement the Central Training Center program.

AUDIT

Course

1102 Irl Wallace, Dayton, Chairman
Ralph Marsh, Milwaukee
Henry Rossi, Pittsburgh

1103 Gwain Gillespie, Detroit—Chairman
Raymond Bloom, Chicago
William Harter, Detroit
Robert Mooney, Minneapolis

1104 Gregory Boni, Cleveland—Chairman
H. Justin Davidson, Chicago
Andrew Ries, St. Louis
Robert Shehan, Chicago

1105 George Tonks, Philadelphia—Chairman
Carl Alexander, Executive Office
Thomas Hays, New York
Howard Kellogg, New York
Roger Markhus, Philadelphia

1106 Arthur Michaels, New York—

Richard Beck, Minneapolis
William Simpson, Pittsburgh

TAX

Course

1201 Leroy Schadlich, San Francisco—Chairman
Neil Bersch, Los Angeles
John Crawford, Portland
Eli Gerver, San Francisco

1202 James Pitt, Minneapolis—Chairman
Carleton Griffin, Denver
Owen Lipscomb, Houston
Andrew Ries, St. Louis
William Sutherland, Milwaukee

1203 Herbert Weiner, New York—Chairman
Walter Diamond, Executive Office
Roger Markhus, Philadelphia
William Simpson, Pittsburgh

1204 Wallace Jensen, Detroit—Chairman
Robert Fairman, Grand Rapids
John Hegarty, Detroit
Herman Olt, Dayton

MANAGEMENT SERVICES

Course

1301 Donald Wood, Detroit—Chairman

1302 Henry Bodman, Detroit—

Millard Breiden, Philadelphia
Maurice McGill, Kansas City
Robert Mitchell, Phoenix
Leland Pickens, Houston
Donald Trawicki, Milwaukee
Alvin Wanthal, San Francisco

1303 Joseph Buchan, Minneapolis—Chairman
Sanford Ackerman, New York
James Bresnahan, Dayton
Donald Curtis, Detroit
H. Justin Davidson, Chicago
Max Sporer, New York

1304 Victor Brown, New York—Chairman
Davison Castles, Portland
Thomas Drenten, Los Angeles
Nile Farnsworth, Detroit
John Keydel, Detroit
Dennis Mulvihill, New York
Gerald Padwe, New York
Harvey Schatz, Detroit

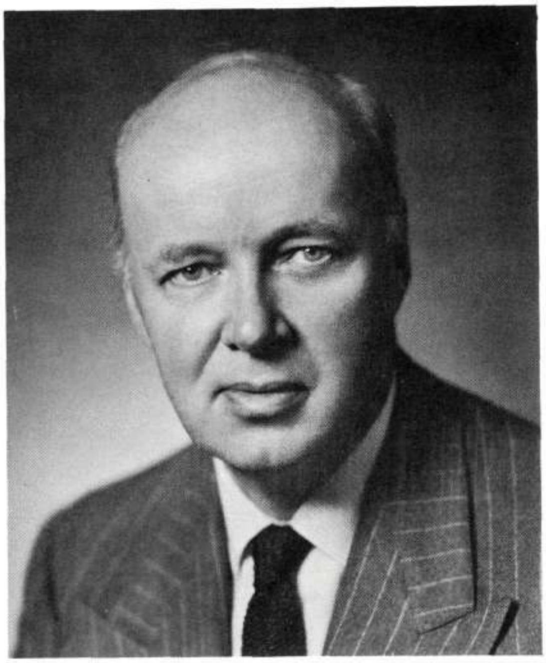
1305 George Craighead, Detroit—Chairman
David Burchfield, Detroit
H. Justin Davidson, Chicago
Robert Stevens, New York
Donald Wood, Detroit

Advanced Computer Seminar

Richard Sprague, Executive office, Donald Wood, Detroit—Co-chairmen
James Bragg, Chicago
Vernon Hakola, Los Angeles

Business Problems of Retail Industry
William Power, Executive office—Chairman
James Carroll, St. Louis
David Fleisher, St. Louis
Carroll Ebert, Chicago

James L. Manns from our Portland office was honored recently when he was awarded a Certificate of Honorable Mention as a result of grades obtained on the November 1963 CPA Examination. Mr. Manns was one of ten Honorable Mentions. The total number of persons sitting for the examination was 12,566. Presenting the award is William H. Holm, vice president of the AICPA.



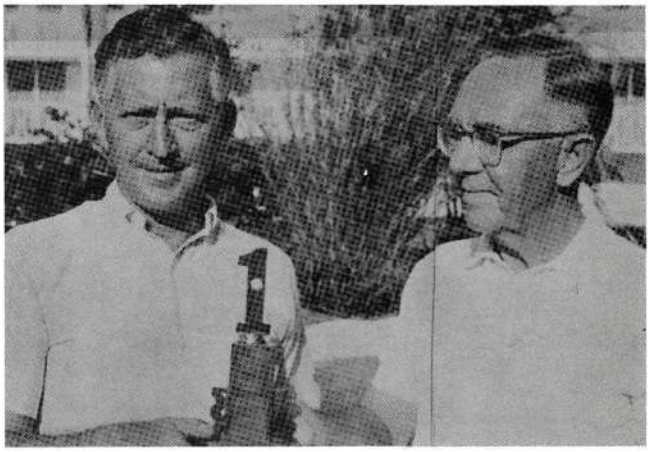
Howard I. Ross, M.A. (OXON), LL.D., D.SC. (COMPTABLE), O.B.E., C.A., was recently elected 11th Chancellor of McGill University. An honorary Doctorate of Laws was also conferred on him by Queens University in May. Mr. Ross is a partner in our Montreal office and is also a partner in the firm of P. S. Ross and Sons, Management Consultants. An editorial by Mr. Ross appears on page 34 of this issue.

Harvey Schatz from our Detroit office is shown speaking at the Profitability Accounting Seminar held for our Latin American offices in Panama from July 20 to 31st. Antonio Galaz from Mexico was the chairman and other countries represented included Argentina, Brazil, Canada, Jamaica, Mexico, Panama and Venezuela.

Donald Bevis, International Coordinating Partner for the TRB&S group, was visited recently by Paulo Vasconcellos, Brazilian Partner from our office in Sao Paulo. After attending the Profitability Accounting Seminar, Mr. Vasconcellos visited offices in Mexico and New York to discuss management services organization.

Faces in the News

Edward L. Pitt, advisory partner from our Cleveland office, received the Presidential Trophy from Harold Calig for making the first hole-in-one at the Palm Beach National Golf Course. Mr. Pitt has made three holes-in-one to date.



Robert Trueblood, partner-in-charge in Chicago, is shown presenting the 1964 Merit Scholarship Award of Certified Public Accountants to Wayne S. Kaplan in ceremonies held at Von Steuben High School. Looking on is Samuel Dolnik, principal. The scholarship is awarded annually to an outstanding student who intends to pursue a career in public accounting.

Speaking Engagements

SPEAKER	*DATE*	*SUBJECT*	*AUDIENCE*
Atlanta			
DRYDEN, E. R.	June 12	Planning for Profits	Apparel Manufacturers Association of America
Chicago			
DAVIDSON, H. JUSTIN	July 2-30	The Uses of Mathematical Programming in Management Accountancy	Seminar sponsored by University of Illinois
	Aug. 6-7	Statistical Sampling	NABAC School for Bank Audits and Control, University of Wisconsin
	Aug. 8	Economic Forecasting	National Association of Sporting Goods Retailers' Business Clinic, Chicago
HOWARD, ALLEN C.	June	Professional Ethics	Illinois Society of CPA's
	June 9	Practical Ethics	61st Annual Meeting of the Illinois Society of CPAs; Peoria, Illinois
JUNE, MARJORIE	July 11	Financial Statements and Reporting	Workshop sponsored by Chicago Chapter of the American Society of Women Accountants
TRUEBLOOD, ROBERT M.	June 5	The Future of the Accounting Profession	Oklahoma Society of CPAs, Tulsa, Oklahoma
	June 22	The Future of our Profession	Central States Conference, Milwaukee
	Sept. 9-11	Leader of Technical Session	Penn State Annual Accounting Study Conference, Philadelphia
Cleveland			
BONI, GREGORY M.	Sept. 17-18	Business Data Processing	Seminar—Northwest Computer Association
THIBODEAUX, PAGE	June 22	Going Public	Seminar—Sponsored by The Ohio Society of CPAs
Denver			
GRIFFEN, C. H.	June 7-10	Conducted Tax Program	Mountain States Accounting Conference, Colorado Springs
	Sept. 25	Recent Developments in Changes in Accounting Methods	Northwest Tax Institute, Eugene, Oregon
Detroit			
FARNSWORTH, NILE W.	June 3	Federal Income Taxation of Banking	School of Banking of the South, Louisiana State University
HEGARTY, JOHN D.	July 12-16	Federal Home Loan Bank Reserve Regulation	Panel Member—Annual Convention of Michigan Savings and Loan League
JENNINGS, DONALD W.	June 8-11	Accounting and Finance for Non-financial Executives	University of Wisconsin Seminar
	June 22-26	Profitability Accounting	University of Wisconsin Seminar
	Sept. 1	Accounting Data for Management	American Accounting Association
	Sept. 28-Oct. 1	Accounting and Finance for Non-financial Executives	University of Wisconsin Seminar

SPEAKER	*DATE*	*SUBJECT*	*AUDIENCE*
JENSEN, WALLACE M.	Oct. 1	Purchase of Intangible Business Assets	Annual Tax Institute sponsored by Tulane University
	Oct. 22-23	Multiple Problems of Multiple Corporations	Texas CPA Tax Institute in Dallas and Houston
KEYDEL, JOHN F.	June 23-24	The Impact of Systematic Management on the Retail Store Organization	National Retail Merchants Association Seminar in New York City
	Sept. 29-30	The Impact of Systematic Management on the Retail Store Organization	National Retail Merchants Association Seminar in New York City
SCHATZ, HARVEY E.	July 27-31	Profit Planning, Costs for Pricing, Make or Buy Decisions, Cash Flow Analysis, Return on Investment, Management of Engagements	Profitability Accounting Conference in Panama
	July 30	Profitability Accounting	Group of local businessmen and accountants in Panama
Executive Office			
BEVIS, DONALD J.	June 17	Substandard Reporting	The Michigan Graduate Study Conference
BEYER, ROBERT	Sept. 1	Business Failures: A Lack of Profit Planning	American Accounting Association Annual Meeting
	Sept. 3	Profitability Accounting	National Association of Accountants in St. Louis
	Sept. 29	Profitability Accounting	The NABAC Convention in New York
	Oct. 28	Profitability Accounting	Burndy Corporation in Boston
	Dec. 16	Impending Changes in the Accounting Profession	National Association of Accountants and the Colorado Society
	Dec. 17	Profitability Accounting for Planning and Control	Financial Executives Institute
BLUMENTHAL, SHERMAN	July 13	On Line-Real Time Systems in Banking	National Automation Conference—American Bankers Association
DIAMOND, WALTER H.	June 18	Current Investment and Trade Problems	Motor & Equipment Manufacturers Association Export Credit Marketing Group
	June 26	Export Trade Corporations	Institute on U.S. Taxation of Foreign Income, Inc. Conference
	July 7	Foreign Credit Terms and Tax Credits	World's Fair Conference of Foreign Credit Interchange Bureau, National Association of Credit Management
SPRAGUE, RICHARD E.	July 15-19	Research Seminar	American Management Association in Los Angeles
Houston			
BREWER, HERBERT J.	June 1-6	Appraisal of Yardsticks and Their Application	Seminar—International Conference of the Institute of Internal Auditors
DEREYNA, R. J.	June 1-6	Changing Concepts in Internal Controls	Seminar—International Conference of the Institute of Internal Auditors
LATTER, THOMAS C.	May 22	Sundry Business and Corporate Provisions	Seminar—Houston Chapter Texas Society of CPAs
	June 30	Discussion of 1964 Revenue Act	Kiwanis Club of South Eastern Houston

SPEAKER	DATE	SUBJECT	AUDIENCE
Kansas City			
HOFFMAN, LOREN G.	Sept. 10	Multiple Corporations' Tax Problems	The Institute of Internal Auditors
MCGILL, MAURICE	Jan. 16, 1965	Advance in Management Through Automation	Administrative Management Society (formerly NOMA)
Los Angeles			
BERSCH, NEIL	Aug. 3	Computer Prepared Tax Returns	Computer Sciences Corporation
Milwaukee			
JENNINGS, DONALD BEST, DONALD ROBERTSON, LOWELL L. TRAWICKI, DONALD	June 8-11	Finance and Accounting for Non-financial Executives	The Management Institute of The University of Wisconsin, Madison, Wisconsin
BEST, DONALD DETROYE, WILLIAM HEBERER, GEORGE NIENOW, ROBERT TRAWICKI, DONALD	June 22-26	Profitability Accounting	The Management Institute of The University of Wisconsin, Madison, Wisconsin
WETTERHALL, ROY C.	June 24	Internal Revenue Code Changes	Panel Discussion—Central States Accounting Conference of CPAs
Minneapolis			
PITT, JAMES F.	July 23	Prepaid Income & Estimated Expense	AICPA Tax Seminar—Denver
New York			
BROWN, VICTOR H.	June 8-10	Cost of Capital	American Management Association Seminar
CIANCA, BERNARD J.	June 8	The CPA Audit	CONUS Auditors' Conference sponsored by Army & Air Force Exchange Service
COSTELLA, SALVATORE D.	June 15	Sensitivity Analysis and Cost Estimating for inventory models	Steel Service Center Institute Advanced Seminar
DALY, ANTHONY J.	July 9	Opportunities in TRB&S	Rutgers Graduate School of Public Accounting
GOLDSCHMIDT, ROBERT A.	Aug. 20	Return on Investment Financial Appraisal & Evaluation	American Management Association
SPORER, MAX	June 8-10	Return on Investment	American Management Association
TARALLO, ANTHONY E.	June 3-5	Controllership Support for Marketing Management Accumulating Marketing Information	American Management Association
WEINER, HERBERT	Nov. 11	Goodwill in the Sale of a Business: Allocation; Accounting Requirements	New York University Annual Tax Institute
WEINSTEIN, EDWARD	Oct. 31	Evaluation of Internal Control	Nassau-Suffolk Chapter of New York State Society of CPAs
Philadelphia			
BREIDEN, MILLARD L.	July 24	Management Services	AICPA Professional Development in Philadelphia
MARKHUS, ROGER	Sept. 30	Individual Tax Problems Created by Recent developments	University of Pennsylvania Tax Conference
Pittsburgh			
DIMARIO, JOSEPH F.	June 30	Problems of Organizing and Administering Operations Research	University of Pittsburgh
ROSSI, HENRY J.	July 1	Construction Industry Methods of Accounting — Tax, Accounting and Financial Report Implications	Mellon National Bank & Trust Company—Executive Training Program

SPEAKER	*DATE*	*SUBJECT*	*AUDIENCE*
WERBANETH, LOUIS A.	June 2	Revenue Act of 1964	Credit Association of Western Pennsylvania
	June 5	Revenue Act of 1964	Pittsburgh Chapter, Pennsylvania Institute of CPAs Technical Session
	June 9	Income Averaging	Pittsburgh Tax Club
	June 9	The CPA and His World of Tomorrow	Pittsburgh Chapter, Pennsylvania Institute of CPAs
San Francisco			
BOWEN, DALE S.	June 9	Interpreting Industry Comparative Cost Reports	California Freezers Association
GERVER, ELI	July 13-14	Types of Tax Examination; Litigation of Statute of Limitations	C.P.A. Society—Palo Alto
	July 16-17	Types of Tax Examination; Litigation of Statute of Limitations	C.P.A. Society—Pasadena
	Sept. 11	Legal Responsibility and Tax Practice	Utah Association of CPAs, Salt Lake City
SCHADLICK, LEROY	June 10	The Individual Taxpayer under the Revenue Act of 1964	Mountain States Accounting Conference
Washington, D.C.			
BRASFIELD, KARNEY A.	June 4	Profile for Profitable Shopping Center Operations	Ninth Institute on Management and Operation of Shopping Centers sponsored by International Council of Shopping Centers in cooperation with Michigan State University

Articles and Books

AUTHOR	*EDITION*	*TITLE*	*PUBLICATION*
Chicago			
TRUEBLOOD, ROBERT M.	Aug.-Sept. 64	Meeting The Future Demands of The Profession	Professional Development and the CPA
Cleveland			
BONI, GREGORY	June	Internal Control — What Is It?	AMA Management Bulletin
Detroit			
SCHAIE, JOHN	June	How to Conduct an Executive Search	Credit and Financial Magazine
VANDER BROEK, DAVID	August	Revolving Credit Sales	Credit Current Magazine
Executive Office			
BEYER, ROBERT	June	Profitability Accounting: Challenge And Opportunity	Journal of Accountancy
BUCHAN, JOSEPH	Summer 1964	Why Scientific Inventory Management Has Proved Useful	The Cooperative Accountant
DIAMOND, WALTER	July 7	Foreign Licensing	Prentice Hall's Treasurer's Report
	August	Current Trends in Foreign Trade	Credit and Financial Management
	Aug. 3	License Pacts Exceeds Overseas Investing	American Banker
	Aug. 6	Licensing vs. U.S. Investments Abroad	The Commercial & Financial Chronicle
	Aug. 13	Tax Considerations of Industrial Rights Abroad	Foreign Credit Interchange Bureau of NACM
	Aug. 21	Overseas Licensing	Sales Management
	Sept.	Foreign Licensing	Appliance Manufacturing
	Sept.	Licensing Abroad	Apparel Manufacturer

With the Alumni

Boston — Philip Shapiro resigned to accept the position of assistant treasurer at Garland Knitting Mills, a client of the Boston office, in Brockton, Massachusetts.

Chicago — Darrell Rutter left the audit staff in May to accept a position with Borg-Amphenol Electronics.

Memphis — Roy L. Gates resigned to join Coastal Gas Company, one of our clients.

Milwaukee — Donald R. Best has resigned to accept a position as controller at Brillion Iron Works, in Brillion, Wisconsin.

Minneapolis — Robert McWain resigned in May to accept a position with American Hoist & Derrick Company in St. Paul. Richard Neilsen left in June for St. Louis where he is training for a new position as field examiner with the Internal Revenue Department.

Pittsburgh — James O. Racley, formerly senior accountant in the Pittsburgh office, has been appointed assistant to the controller of Penn Machine Company.

St. Louis — Robert L. Jensen resigned to accept a position with Symsack Development Inc. Ray Flack left our office in April to work for Civil Service at Scott Air Base in Illinois. Ray will be working with another former employee, Jack Nesbit.

San Diego — Lewis P. Spivak, formerly of the audit staff, resigned to accept a position as chief accountant with Barnes Chase Company, a client of the San Diego office.

San Francisco — William Grismer left our firm to accept a position as secretary with Heccla Mining Company, Wallace, Idaho. Bradley Dewey is assistant controller of Kaiser Industries. Glen Mowry is now executive vice president of Bank of California.

Seattle — W. J. Pennington was elected president of the Seattle Chamber of Commerce in June. Mr. Pennington was on the Seattle staff from 1941-51 and is now business manager of The Seattle Times.

Applause

Atlanta — Newly elected associate directors of the Atlanta Chapter of the National Association of Accountants are E. R. Dryden—Program; Betty Kahrs—Special Activities; Robert Minnear—Meetings.

Appointments to committees of the Georgia Society of CPAs have also been announced recently. Atlanta office personnel serving are: E. R. Dryden, Chairman—Education Committee, George Vest—Taxation Committee, and Robert Minnear—Accounting Theory and Auditing Committee. Messrs. Dryden, Vest & Minnear will also be serving on the CPA Consultation Service Staff which is just being organized in the state of Georgia.

Boston — Notification has been received from the Massachusetts Society of Certified Public Accountants that TRB&S Boston men have been appointed members of the following committees: Small Business, Stanley E. Hart; Education, Charles H. Noble; Co-operation with Bankers, James M. Lynch; Accounting and Auditing Procedures, Philip Shapiro; Responsibilities of a Tax Practice, Donald C. Wiese, Chairman; Public Relations, Paul J. Gerry and Donald C. Wiese; Executive, Hugh Dysart, Jr., Committee Co-ordinator; Co-operation with Bar Associations, Hugh Dysart, chairman.

Hugh Dysart was re-elected treasurer of "The 76 Club of Boston," a professional and business men's club, for 1964-65.

James M. Lynch received an Award of Merit from the University of Massachusetts School of Business Administration for meritorious contribution to the cause of General Education in a free society through the Conference Program of the University. As a member of the industry advisory committee, Mr. Lynch has also been appointed coordinator with the University of Massachusetts for developing a figure exchange reporting for self-service discount department stores. The questionnaires are in the process of being mailed to selected operators and compilation of results is expected in October. This will be the first time any merchandise and operating statistics have been available for the discount industry.

Chicago — Justin Davidson has been appointed to a Special Project Sub-Committee of the Management Services Committee of The Illinois Society of Certified Public Accountants. The objective of this subcommittee is to develop a practical plan whereby the Society can contribute toward the reduction of the cost of the state government without impairing the vital services performed by the state of Illinois.

William Schwanbeck is serving as a member of the Executive Committee of the Chicago Life Insurance Trust Council.

Marjorie June will serve as corresponding secretary of the Chicago Chapter of the American Society of Women Accountants for the year 1964-65.

Kenneth Johnson has been appointed to the membership committee of the Illinois Society of Certified Public Accountants.

Dayton — R. Allan Parker has been appointed chairman of the Committee on Practice Review of the Ohio Society of Certified Public Accountants. Other staff members serving on committees of the Ohio Society of CPAs are Irl C. Wallace—Cooperation with the Bar Association, Charles G. Taylor—Cooperation with PASO and F. J. Schubert, Vice-Chairman of the Municipal Income Taxes —Advisory. Keith A. Cunningham has been elected a member of the the Board of Directors of the Dayton Chapter of the Ohio Service of CPAs.

Denver — Charles E. Husted has been appointed to the Board of Directors of the Denver Chapter of the National Association of Accountants and has also been appointed assistant treasurer.

Russell E. Palmer has been appointed secretary of the Insurance Committee of the Colorado Society of CPAs.

The following people have been appointed to committees of the Colorado Society of CPA's: Carleton H. Griffin—Federal Taxation, and Professional Ethics; Charles E. Husted—Public Relations; Rocco A. Laterzo —Staff Accountants; Earl E. Marcus—State Taxation; Arthur Samelson—Cooperation with Credit Grantors; Russell E. Palmer—Insurance (Secretary).

Detroit — George P. Craighead was recently elected to serve as a director of the Detroit Chapter of the American Marketing Association.

Phyllis E. Peters has been elected national president of the American Society of Women Accountants.

Appointments to committees of the Michigan Association of CPAs for the year 1964-65 are: Accounting and Auditing Procedures—William S. Harter (chairman); Annual Meeting—Richard F. VanDresser; Relations with Attorneys—John D. Hegarty; Relations with Bankers—Nile W. Farnsworth; By-Laws—Kenneth S. Reames (chairman); Federal Taxation—David J. VanderBroek; Graduate Study Conference—Charles E. Wieser; Insurance and Pension—James W. Neithercut; Joint Review—Al M. Mlot; Legislation—Kenneth S. Reames and Henry E. Bodman; Management of an Accounting Practice—Daniel J. Kelly; Management Services—David V. Burchfield; Membership—Harry G. Troxell (vice-chairman); Nominations—Kenneth S. Reames (chairman); Personnel—David M. Smith; Professional Education—Gwain H. Gillespie (vice-chairman) and Thomas R. Ames; Professional Ethics—Paul E. Hamman; Publication—Phyllis E. Peters; Public Service and Information—Robert D. Wishart; State Taxation—Elmer M. Houghten; and Unauthorized Practice—Rosemary Hoban.

Executive office — William Werntz has accepted the job of chairman of a select committee to make recommendations to the Council of the American Institute of CPAs as to how best to implement the resolution of the Council at its May, 1964 meeting that departures from the APB pronouncements should be disclosed.

Grand Rapids — Joyce E. Cowman was elected second vice president of the American Woman's Society of Certified Public Accountants.

Houston — Herbert J. Brewer was appointed a member of the Accounting and Auditing Procedures Committee of the Texas Society of Certified Public Accountants 1964-65. He is also serving on the Committee on Practice Review of the Texas Society during 1964-65. Mr. Brewer is serving as chairman of the Auditing Committee of the Houston Chapter of the Texas Society, and is also serving on the Committee on Practice Review of the Houston Chapter.

Ray de Reyna has been elected to the Board of Directors of the Houston Chapter of the National Association of Accountants for the Chapter Year 1964-65.

Owen Lipscomb has been selected as chairman of the Texas Society's 1964-65 Committee on Professional Tax Practice.

Leland C. Pickens has been appointed chairman of the Entertainment Committee for the Controllers' Congress Convention to be held in Houston in 1965, and Mrs. Nancy Pickens has been asked to serve as a member of the Ladies' Hospitality Committee. Lee has also been appointed to serve as a member of the 1964-65 Committee on Management Services by CPA's of the Texas Society of Certified Public Accountants.

Kansas City — John D. Crouch was named to the Board of Trustees at the Research Hospital in Kansas City. Mr. Crouch is also president of the Missouri Society of CPAs.

Los Angeles — Jacqueline Kanaga of the tax department has been elected to the Board of Directors of the American Society of Women Accountants.

John Balian has been appointed a program chairman for the Pasadena area discussion groups to be sponsored by the Los Angeles Chapter of the California Society of CPAs.

Minneapolis — Delwyn Olson is serving as president of the Minneapolis Junior Chamber of Commerce (one of the largest Jaycee Chapters in the U.S., with some 650 members).

Carl Pohlman has been re-elected vice president of the Minneapolis Chapter of the N.A.A.

Einar Ross was elected a director of the St. Paul Chapter of the N.A.A.

Clayton Ostlund has been elected a director of the Minnesota Society of CPAs.

The Minnesota Society of CPAs Committee appointments for 1964-65 include: Accounting & Auditing Procedures: I. B. Aaseng and E. S. Ross; Auditing: R. J. Bach (V.C.); Cooperation with Bar & Accounting Organizations: J. F. Pitt (V.C.); CPA Consultation Service: J. R. Beck (V.C.); Education: H. D. Ness; Estate Planning: R. J. Mooney (C.); Legislative Policy: J. F. Pitt; Management Services: G. E. Maas and K. H. Stocke; Meetings: M. L. Dawson; Membership: D. W. Johnson; Past Presidents: J. F. Pitt and E. P. Tang: Personal Financial Management: J. D. Grande; Professional Development: A. C. Ostlund (Bd. member), R. J. Bach, and G. T. McCormick; Professional Ethics: J. R. Beck; Professional Standards: E. P. Tang; Publications: R. J. Loehr and W. E. Nelson; State & Municipal Accounting & Auditing: C. H. Holtze; Tax Conference: A. C. Ostlund (Bd. member) and J. F. Ascher; and Taxation—Federal & State: A. C. Ostlund (Bd. Member) and J. F. Pitt.

New York — Arthur Michaels has been elected treasurer of the New York State Society of CPAs for the year beginning June 1.

A list of TRB&S personnel on committees of the New York State Society of Certified Public Accountants follows: Frederick L. Blank, Insurance Companies and Agencies Accounting; Victor H. Brown, Relations with Educational Institutions; Robert L. Burton, Accounting Machinery; John P. Carroll, Cooperation with Commercial Credit Grantors; William K. Carson, Furtherance; Bernard J. Cianca, Retail Accounting; Anthony J. Daly, Advisory Committee to the State Comptroller; John Ehling, Arbitration & Mediation; Charles Fertsch, Interim Audits; Robert C. Frye, Stock Brokerage Accounting; Robert M. Furman, Municipal and Local Taxation; Edwin Heft, Cooperation with Investment Bankers and Security Dealers; Arthur Michaels, Budget and Finance and Investment of Society's Funds; Arthur Ottenstein, Textile Accounting; Herbert M. Paul, New York State Taxation; Arthur J. Radin, Staff Accountants; Misag Tabibian, Contractors' Accounting; Edward A. Weinstein, Insolvency & Bankruptcy Procedures; and Herbert Wender, Natural Business Year.

Edward A. Weinstein has also been appointed to the committees of the Nassau-Suffolk Chapter of the New York State Society for Audit and Accounting Procedure and Cooperation with Educational Institutions.

Peter N. Breitman has been elected president of the New York State Association of CPA Candidates, Inc.

Herbert Paul has been appointed chairman of the subcommittee on technical meetings of the New York State Tax Committee.

A new book has just been published by the Commerce Clearing House, Inc. entitled CORPORATE TAX MANAGEMENT, written by Arnold Williams, tax manager at Rheem Manufacturing Corp. This book was reviewed by Peter Klausner of our tax staff and his contribution is mentioned in the preface.

Pittsburgh — Joseph F. DiMario has been elected treasurer of the Pittsburgh Chapter of the Institute of Management Sciences for the year 1964-65.

Louis A. Werbaneth, Jr. was elected vice president — Administration of the Economic Club of Pittsburgh.

William J. Simpson has been elected director of Manuscripts of the Pittsburgh Chapter of NAA.

Appointments to the Pittsburgh Chapter of the Pennsylvania Institute of CPA's include: Louis A. Werbaneth, President; Alan D. Henderson, chairman, Committee on social Activities — Dinner Dance; and William J. Simpson, chairman, Committee on Junior Achievement. Members of committees are: Guy P. Ebersole, Jr. Committee on Attendance and Reception; Henry J. Rossi, Committee on Social Activities — Golf Outing; William J. Simpson, Committee on Tax Meetings; Charles A. Koempel, Committee on Local Publicity; John C. Williams, Committee on Relations with Schools and Colleges; Joseph A. Fillip, Committee on Junior Achievement; Henry J. Rossi, Committee on Professional Development; and James J. Fascetti, Committee on Local Government and Taxation.

Portland — C. Wade Hanson is a member of the organization committee of the American Management Association. Their purpose is to promote seminars in Portland, where none have been held.

L. E. Schmidt was elected treasurer of the Oregon Society of CPA's for 1964-65. He was also elected treasurer of the Portland Retail Controllers Group for 1964-65.

TRB&S People Pass CPA Examinations

Atlanta
Gerald A. LeCroy

Boston
Robert S. Margil

Chicago
Raymond Hefertepe
Robert Ladecky
Robert McAdams
Martin Paluga
James Teeter
John True

Dallas
Paul Cash
John A. Drew
Robert L. Keeling
Ronald Schweers

Dayton
John E. Scott
John K. Shank

Denver
David E. Coffey
Charles W. Hoskins
J. Newell Jackson
George A. Olson

Detroit
John A. Glotzbach
William R. James
Ward G. Tracy

Kansas City
Gerald L. Bos
Pvt. James R. Holmes (on military leave)
Charles M. Johnson
John E. Mutti
Conrad B. Nagel
William R. Pohlman

Los Angeles
Thomas L. Gogo, Jr.
James E. Lindsay
Roderick B. Thomson

Milwaukee
Larry L. Kyle

New York
Douglas Anderson

Philadelphia
Judson P. Vosburg
Thomas J. Ward

Portland
James L. Manns
Wallace Phillips
F. Wayne Schultz

Rochester
James Lawler

San Francisco
Ronald Bresolin
Edward Fisher
James Harvey (on first attempt passed all four parts)
Larry Macdonald
Alvin Wanthal

Seattle
Michael P. Curtis
Jerrold H. Koester

Deaths

C. Herbert Gale
New York
Retired partner
May 31st

Sheldon Goldenberg
Executive office
Tax research
June 21st

Robert T. Kirkbride
Detroit
Tax Staff
July 28th

Bruce Willis
Montreal
Partner
July 11th

Quarterly Correspondents

Atlanta, *Martha Martin* • Boston, *Marjorie J. Johnson* • Chicago, *Sherle Swanson* • Cleveland, *Alberta Everett* • Dallas, *Maxine Melton* • Dayton, *Leslie Early* • Denver, *Beverley Thomas* • Detroit, *Harry G. Troxell* • Executive Office, *Florence Morbelli* • Grand Rapids, *Joyce E. Cowman* • Houston, *Jeanie Lannom* • Kansas City, *Genevieve Silady* • Los Angeles, *Jay Liechty* • Memphis, *Ann Agee* • Milwaukee, *Mayme Solberg* • Minneapolis, *Alice Carlson* • New Orleans, *Betty Ruth Menzies* • New York, *Marie Bertolino* • Philadelphia, *Jean McConnell* • Phoenix, *Ira Osman* • Pittsburgh, *Mary Jo Densmore* • Portland, *Grace McLean* • Rochester, *Marion Snyder* • St. Louis, *Lillian Meyer* • San Diego, *Norma Tammer* • San Francisco, *Vilma Jenson* • San Jose, *Pat Skelton* • Seattle, *Helen B. Lilly* • Washington, *Pat Gaddy*